
# OUR MISSION

>> Empowering local solutions for global competition. //

The Business Development Bank of Canada is a financial institution wholly owned by the Government of Canada. BDC plays a leadership role in delivering financial and consulting services to Canadian small business, with a particular focus on the technology and export sectors of the economy.

BDC's debt obligations are issued to the public and to private sector institutions and are secured by the Government of Canada.


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*Ce document existe également en version française.*

# Year in review

## CREATIVITY ACCELERATES GROWTH IN SMALL BUSINESS

In today's competitive global environment, entrepreneurs are constantly rethinking how they do business. Whatever the strategy they are pursuing, all creative companies are innovating at the speed of market change.

Ottawa-based Nu-Wave Photonics Inc. is a leader in the design, development and manufacturing of integrated optical circuits for fibre-optic communications networks. Support from BDC enabled the company to launch its "photonics dream team," which boasts unparalleled expertise in large-scale, complex initiatives.

McKinney Industries in Calgary manufactures inventive and environmentally friendly snow-making and dispersion equipment largely targeted to the international recreational ski industry. A BDC Micro Business Program loan followed by a Venture Loan were key to the company's aggressive marketing and growth strategies, which have yielded a 30-fold increase in sales over a five-year period.

When Quebec-based Signalisation Ver-Mac Inc. leveraged its competitive edge in the electronic signage business – high visibility of its signs to drivers – the company carved out 70 percent of the Canadian highway signage market. A BDC Working Capital for Growth loan was used to build inventory and support escalating export sales, which now represent 75 percent of the company's total revenue.

One big event occurred when Montreal-based Productions Pascal Blais Inc. won an Academy Award® for the animated film "The Old Man and the Sea". BDC is proud to count among its clients a company whose achievement was recognized by the mecca of the film industry.

## BIG EVENTS FOR SMALL BUSINESS

Each year, Small Business Week® recognizes the important contribution of the small business community to the Canadian economy. In 1999, "Boosting Productivity" was Small Business Week's main theme and this major event brought together 35,000 people who participated in 350 different activities. BDC's Young Entrepreneur Awards are an outstanding event of this week that salutes a new breed of Canadian entrepreneurs. Moreover, the winners are matched with a renowned business leader in their province or territory, who becomes their mentor for one year.

BDC also sponsors Info-Fairs throughout the year, which are set up by Industry Canada. These events feature seminars and conferences offering small businesses the opportunity to discuss relevant issues, such as financing, technological training and e-commerce. In addition, Info-Fairs inform small businesses about the federal programs and services available to them at each stage of their growth.

1999 04 05 06 07 08 09 10 11 12 01 02 03 2000

## IN TOUCH WITH THE COMMUNITY

For years, BDC has been actively involved in the community through timely and respected initiatives such as *Growing with you*, which promotes local teams and sporting events for young people across Canada. Moreover, many BDC employees dedicate their time and energy to community projects and activities.

## STRATEGIC ALLIANCES

The National Bank of Canada and BDC have formed a strategic alliance aimed at providing better access to capital and consulting services for small businesses throughout the country. A combined pool of $100 million was allotted to support knowledge-based, exporting and innovative manufacturing industries.

Through the signing of an agreement, BDC Consulting Group became a member of the Canadian Association of Management Consultants and the Ordre des administrateurs agréés du Québec. This alliance will enable all professionals of BDC Consulting Group to obtain the designations offered by these organizations.

For the 14th straight year, the alliance between BDC and Human Resources Development Canada (HRDC) has enabled students who want to create and manage a summer business to benefit from the Student Business Loans Program. This program is financed by HRDC and managed by BDC through its virtual branch, BDC Connex.®



EMPOWERING LOCAL SOLUTIONS FOR GLOBAL COMPETITION

## WE EMPOWER//

### > SMALL BUSINESSES TO INNOVATE

At BDC, we know what it means to do business differently – to help companies make their indelible mark in a global business environment with creative thinking, bold ideas and the exceptional vision it takes to realize growth potential. Across the country, small businesses are innovating at warp speed, whether that involves exploring export strategies, commercializing product breakthroughs or improving productivity. And the Bank is there to ensure innovative entrepreneurs can achieve business excellence in a networked world.

## WE ENABLE//

### > SMALL BUSINESSES TO MAKE IT BIG

BDC clients know that e-commerce will become an essential ingredient for success in virtualy every sector. As business-to-business e-commerce evolves to become a vital strategy in the new network economy, our clients can rely on the Bank's management consulting savvy to give them a competitive edge every step of the way, from strategic planning right through to quality assurance. Add to that flexible financing solutions, from term loans to venture capital, to help small businesses succeed in an online world.

## WE HELP//

### > DRIVE SMALL BUSINESS PROD

To prosper in the global business
ductivity is paramount. Througho
businesses – one of the key engin
vigorous economy – are gaining
race to improve efficiency and th
is responding to small business
ing companies find new ways o
improving quality and adding valu
small business, we ensure our lo
global results.

>> FINANCING AT THE SPEED OF INNOVATION ... //

# EMPOWERING LOCAL SOLUTIONS FOR GLOBAL COMPETITION

WE EMPOWER //

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## > DRIVE SMALL BUSINESS PRODUCTIVITY

To prosper in the global business community, productivity is paramount. Throughout Canada, small businesses – one of the key engines that propels a vigorous economy – are gaining momentum in the race to improve efficiency and think smarter. BDC is responding to small business demands by helping companies find new ways of doing business, improving quality and adding value. In business for small business, we ensure our local solutions yield global results.

>> FINANCING AT THE SPEED OF INNOVATION ... //

# HIGHLIGHTS

FOR THE YEAR ENDED MARCH 31
< $ IN MILLIONS >

| | |
|---|---|
| 00 | **1,435** |
| 99 | 1,272 |
| 98 | 1,235 |
| 97 | 1,027 |
| 96 | 896 |

## // TOTAL FINANCING COMMITTED AS AT MARCH 31

< $ IN MILLIONS >

| | |
|---|---|
| 00 | **5,641** |
| 99 | 5,090 |
| 98 | 4,586 |
| 97 | 4,038 |
| 96 | 3,623 |

## // FINANCING AUTHORIZED TOTAL NUMBER FOR THE YEAR ENDED MARCH 31

| | |
|---|---|
| 00 | **6,412** |
| 99 | 6,082 |
| 98 | 5,815 |
| 97 | 5,727 |
| 96 | 5,351 |

AS AT MARCH 31

| | |
|---|---|
| 00 | **18,807** |
| 99 | 17,923 |
| 98 | 17,414 |
| 97 | 16,383 |
| 96 | 15,774 |

## // BDC CONSULTING GROUP COST RECOVERY RATE FOR THE YEAR ENDED MARCH 31

< PERCENTAGE* >

| | |
|---|---|
| 00 | **82** |
| 99 | 77 |
| 98 | 69 |
| 97 | 59 |
| 96 | 58 |

## // DIVIDEND DECLARED FOR THE YEAR ENDED MARCH 31

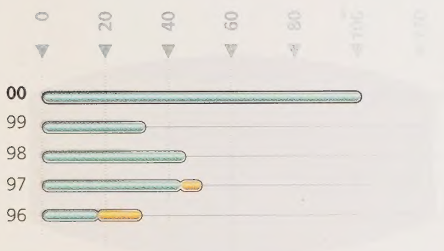
< $ IN MILLIONS >

| | |
|---|---|
| 00 | **8.9** |
| 99 | 6.0 |
| 98 | 6.0 |
| 97 | 3.4 |
| 96 | 0.0 |

* Restated to include transformation costs

## NET INCOME FOR THE YEAR ENDED MARCH 31

< $ IN MILLIONS >

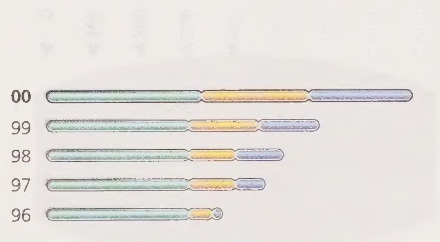


| | Net income (excluding parliamentary appropriation) | Parliamentary appropriation |
|---|---|---|
| **00** | **101.10** | **0.00** |
| 99 | 32.78 | 0.00 |
| 98 | 45.47 | 0.00 |
| 97 | 43.72 | 6.95 |
| 96 | 17.47 | 14.08 |

Net income (excluding parliamentary appropriation)
Parliamentary appropriation

## TOTAL SHAREHOLDER'S EQUITY AS AT MARCH 31

< $ IN MILLIONS >



| | Common shares | Preferred shares | Retained earnings | Total shareholder's equity |
|---|---|---|---|---|
| **00** | **331.2*** | **230.0** | **222.6** | **783.8** |
| 99 | 303.4 | 150.0 | 130.4 | 583.8 |
| 98 | 303.4 | 100.0 | 103.7 | 507.1 |
| 97 | 303.4 | 100.0 | 64.2 | 467.6 |
| 96 | 303.4 | 50.0 | 16.9 | 370.3 |

* Includes a $27.8 million contributed surplus

## FOR THE YEAR ENDED MARCH 31

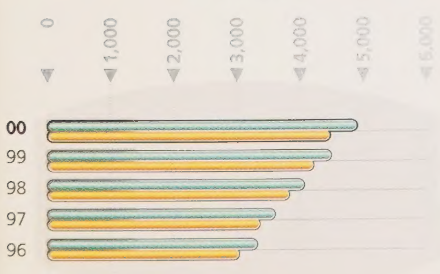
< $ IN MILLIONS >

| | BDC Venture Capital authorized | Other sources of investments (estimated) | Total |
|---|---|---|---|
| **00** | **63** | **301** | **364** |
| 99 | 42 | 160 | 202 |
| 98 | 63 | 187 | 250 |
| 97 | 30 | 111 | 141 |
| 96 | 15 | 38 | 53 |

BDC Venture Capital authorized
Other sources of investments (estimated)

## TOTAL OUTSTANDING LOANS VS. BORROWINGS AS AT MARCH 31

< $ IN MILLIONS >

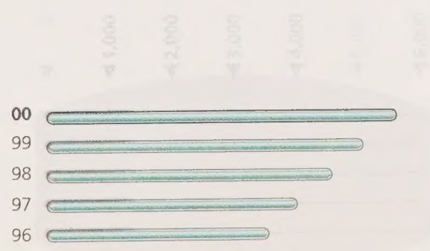


| | Loans | Borrowings |
|---|---|---|
| **00** | **4,903** | **4,483** |
| 99 | 4,501 | 4,223 |
| 98 | 4,072 | 3,838 |
| 97 | 3,611 | 3,371 |
| 96 | 3,329 | 3,045 |

Loans
Borrowings

## TOTAL ASSETS AS AT MARCH 31

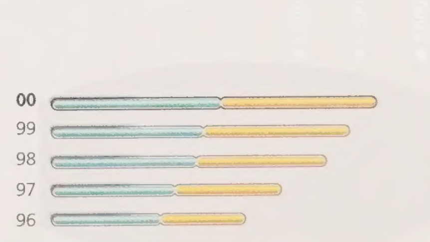
< $ IN MILLIONS >



| | |
|---|---|
| **00** | **5,644** |
| 99 | 5,098 |
| 98 | 4,588 |
| 97 | 4,030 |
| 96 | 3,573 |

## FOR THE YEAR ENDED MARCH 31

< $ IN MILLIONS >



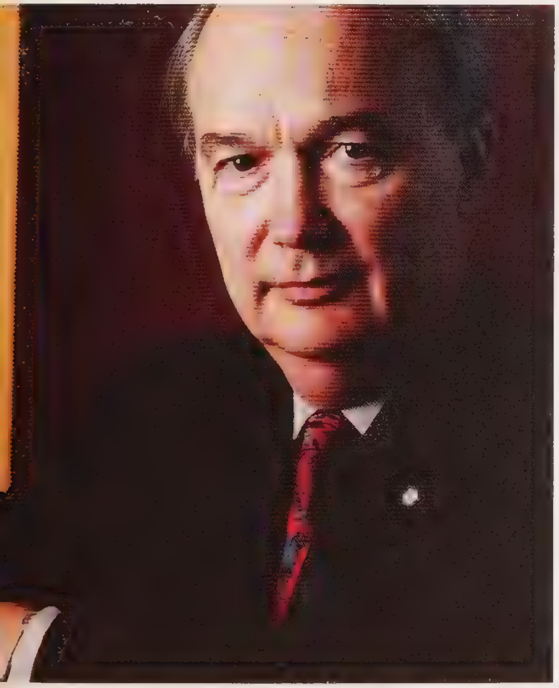
| | BDC lending authorized | Other sources of financing (estimated) | Total |
|---|---|---|---|
| **00** | **1,372** | **1,266** | **2,638** |
| 99 | 1,230 | 1,189 | 2,419 |
| 98 | 1,172 | 1,059 | 2,231 |
| 97 | 998 | 867 | 1,865 |
| 96 | 882 | 691 | 1,573 |

BDC lending authorized
Other sources of financing (estimated)

>> Financing at the speed of a changing world ... //

OUR CUSTOMERS TO REACH NEW HEIGHTS

# CHAIRMAN'S MESSAGE



*"Much of BDC's success is due to the remarkable performance of the Bank's venture capital investments, which we have carefully nurtured with customers over the years. I believe we can leverage the $101.1 million profit for even greater support of Canadian small businesses."*

In fiscal 2000, BDC's consolidated net income reached a record $101.1 million, significantly exceeding forecast. Our total financing commitments have increased by 11 percent while our customer base has grown by a healthy 5 percent. For the fourth consecutive year, BDC declared a dividend to its shareholder, the Government of Canada. The amount declared this year is $8.9 million.

BDC's success in fiscal 2000 involved more than financial performance. We also measure performance by how effectively we help our customers succeed, and I believe we are doing that skillfully and responsibly.

Our raison d'être is to serve the country's small businesses at every stage of their business cycle and across the spectrum of economic opportunity. In the three areas identified as critical to the health of small businesses and, through them, of the Canadian economy, BDC is already taking a leadership role.

First, we are actively helping small businesses increase their productivity and become more globally competitive, through the creation of a new family of financial products like our Productivity Plus Loans and Innovation Financing.

Second, we are aggressively encouraging our customers to explore the full potential of e-commerce, and to become viable participants in the new economy.

And third, we are setting an example for the financial community by responding to Canadian entrepreneurs' growing needs for more venture capital. BDC's strategy in recent years has been to focus up to 96 percent of our venture capital commitment on knowledge-based industries, and we have been rewarded by a remarkable performance. Most of the venture capital operating profits of $80.0 million for fiscal 2000 will be re-invested to further accelerate our venture capital activities. At the same time, we are leveraging our investments by encouraging other funding sources to co-venture with us.

These objectives respond directly to our 1995 mandate. In fact, the recent MacKay Report commended BDC for filling a number of gaps, financial and otherwise that small businesses regularly face.

This approach applies not only to technology firms and exporters in the new economy, but equally to more traditional enterprises, as well as to the business needs of women, Aboriginal and young entrepreneurs all across Canada

We also continue to work with higher levels of client risk than other financial institutions. While risk is inherent in the small business sector, BDC is well structured to deal with it. As an example, the one-stop services offered by BDC Consulting Group help small businesses improve their management skills and permit us to better manage our loan exposure.

In closing, let me thank our Board of Directors and its committees for their conscientious work, and acting president and CEO Bernie Schroder for his support. Our thanks also go to outgoing members Kevin Lynch and Shirley Serafini of Industry Canada for their remarkable contribution. I want to personally salute the work of BDC personnel during fiscal 2000. I look forward to working with you and our customers to an exciting future

Michel Vennat

> Michel Vennat
Chairman of the Board

>> Financing at the speed of a changing world ... //

MARKETS

# PRESIDENT'S MESSAGE

Y2K

*"Relying on customer-focused employees, we can extend our reach across the country through diverse channels to provide financing and management solutions that help small businesses succeed in the new economy. By truly being an employer of choice, we enable our people to find innovative ways of supporting our customers' needs."*

Fiscal 2000 was truly an outstanding year at the Business Development Bank of Canada (BDC). We provided more loans to more clients and more venture capital to Canadian small businesses than at any time in our 55-year history. Our consulting services enjoyed more repeat business than ever before. At BDC, we are proud of the part we have played in helping Canada and its vital small business community reach even higher levels of success.

Having joined the Bank just over a year ago, I feel privileged to have had the opportunity to share in its success. Our strong customer-orientation, combined with the expertise and professionalism of our people, is reflected in record results. The strategies we developed during the year will allow our staff and our customers to embrace the new e-conomy, and move aggressively into the 21st century. BDC is a dynamic institution, well-positioned to fulfil its important complementary role in meeting the financing, investing and consulting needs of Canadian small businesses.

## > A RECORD FINANCIAL PERFORMANCE

For fiscal 2000, the Bank's Corporate Plan called for sustained growth in BDC's portfolio, a further increase in the proportion of financing to knowledge-based industries (KBIs) and exporters, as well as continued introduction of innovative services for Canadian entrepreneurs – all to be achieved in a commercially responsible manner. The results speak for themselves: the Bank met or exceeded most of its objectives during fiscal 2000, experiencing the most successful year ever in its history

Financing committed to Canada's small businesses reached a record high of $5.6 billion, an 11-percent increase from fiscal 1999. Of this amount, $1.4 billion in new financing was authorized during fiscal 2000. At the same time, BDC recorded a net income of $101.1 million for the year, and again declared a dividend to the Government of Canada, which amounted to $8.9 million in fiscal 2000.

# PRESIDENT'S MESSAGE

As knowledge-based businesses and exporters continued to play their key roles in moving Canada's economy forward, BDC intensified its focus on their support. Venture capital commitment at year-end reached $195 million, 24-percent higher from a year ago, reflecting the continued growth in demand for equity financing from KBIs and exporters. Throughout fiscal 2000, the Bank also refocused its subordinate financing operations to better meet the needs of customers. The Bank's commitment to its lending customers reached $5.4 billion, up 10 percent from the previous year.

BDC Consulting Group – whose goal is to deliver relevant, affordable management solutions for small business clients – continued to improve its financial performance, with a cost recovery rate of 82% for the fiscal year.

The Bank's net income during the fiscal year was due, in large part, to the timely divestiture of certain mature investments from our Venture Capital portfolio. By design, however, BDC takes greater risk than most lenders – a consideration which led us to increase the Bank's provision for credit losses by $33 million over fiscal 1999. This decision brings us closer to our long-term average loss experience, and is reflected in fiscal 2000 financial results.

### > CUSTOMER SERVICE FOCUS

Customer service remains a priority at BDC. We devoted considerable time and efforts to simplify our products and procedures to enhance our customer-driven philosophy. We also designed innovative new products during the year, to stay ahead of our customers' shifting needs. For example, the Bank introduced the Productivity Plus Loan to help entrepreneurs enhance their business' productivity, as well as specialized financing to assist small businesses in adapting to e-commerce.

The Bank also extended its reach by supporting its network of Entrepreneurship Centers, which focus on the unique needs of Canadians who are looking to start or expand their small business.

The upshot is that our customers agree that we're heading in the right direction. The overall satisfaction level of BDC clients reached a record high during the fiscal year, growing two full percentage points to 88 percent.

### > BDC // AN EMPLOYER OF CHOICE

At the heart of BDC's strength lies the creativity and experience of its people. More than 1,000 highly motivated and professional individuals work at BDC, bound by a collective desire to help small businesses succeed. Increasing competition for skilled employees has accelerated the Bank's commitment to finding innovative ways to invest in its people, and to respond to their needs for personal growth, training and development.

During the fiscal year, the Bank introduced a number of pro-active recognition, retention and compensation strategies that were aligned with the Bank's corporate goals and our desire to be an "employer of choice".

### > ENHANCING RELEVANCY AND REACH

Throughout fiscal 2000, we have been developing strategies and action plans to strengthen BDC's presence across Canada and within special sectors. We have paid particular attention to regional needs, and have dedicated Bank resources to further support Aboriginal entrepreneurs, as well as women and young entrepreneurs, through a variety of innovative services.

BDC Connex®, the Bank's virtual branch, continued to demonstrate its importance as a delivery channel for all of BDC's products for customers who prefer to communicate via fax, phone or the Internet.

### > E-COMMERCE AND TECHNOLOGICAL LEADERSHIP

The spectrum of technologies maintained its rapid evolution during the fiscal year but, more than any other phenomenon, e-commerce has continued to redefine the ways that business is conducted. BDC believes that e-commerce, in all its aspects, is of great significance for the Canadian small business sector. In fact, this is why it represents one of the Bank's strategic priorities. BDC is heavily committed to helping small businesses understand and adapt to this major change. To this end, we have developed Innovation Financing to help small businesses take advantage of Internet technology, while BDC Consulting Group offers solutions for integrating e-commerce into small business operations.

BDC's goal is to become a true "click and brick" institution, with the ability to serve clients in whatever manner they desire. We have mandated our newly created e-commerce team to further develop an integrated e-commerce strategy for the Bank itself, and to identify new e-commerce solutions for our clients.

### > OUTLOOK

The environment in which most Canadian small businesses evolve is characterized by increasingly complex and competitive global markets, rising consumer expectations and the need to incorporate new ways of meeting those challenges.

Just as our customers must adapt to this environment, so must BDC. The changes that we implemented since the renewal of our mandate in 1995 have enabled the Bank to serve the needs of more Canadian small businesses than ever before, as our commitment grew from $3.3 billion to $5.6 billion, and our customer base from over 14,000 to nearly 19,000.

The impressive results of recent years and the Bank's outstanding performance in fiscal 2000 would not have been possible without the contribution of many people – from our community partners to our Board of Directors, and to each and every BDC employee.

BDC is a remarkable institution with a unique mandate: to be in business for small business. With technology and innovation on our side, we have the ability to do even more for Canadian entrepreneurs and become an even more customer-focused institution, accessible to Canadians anywhere and anytime.

> Acting President and Chief Executive Officer
Bernie Schroder

# OBJECTIVES AND PERFORMANCE

*The following table presents BDC's global corporate objectives, their rationale, fiscal 2000 performance, objectives for fiscal 2001 and strategic priorities for fiscal 2001 developed within the context of BDC fulfilling its public policy mandate while being commercially responsible.*

| > GLOBAL CORPORATE OBJECTIVES | > RATIONALE |
|---|---|
| Increase the level of support to small businesses and transform the financing portfolio towards knowledge-based industries (KBIs) and exporters while continuing to support traditional sectors. | BDC needs to increase its portfolio to meet the financing needs of Canada's growing small business population.<br><br>As well, Canadian KBIs need financing that recognizes their intellectual assets. These businesses play an increasingly important role in the economy, but find it hard to obtain traditional financing, which places a greater value on tangible assets.<br><br>At the same time, as small businesses begin to export, they need more financial and consulting services than what is available from traditional sources. |
| Transform the activities of BDC Consulting Group to respond to specific needs of small businesses and to be financially sustainable. | In support of BDC's mandate and using private sector expertise, BDC Consulting Group is going through a major transformation to offer more relevant consulting services to Canadian small businesses by focusing on their needs in the areas of growth, quality, export and e-commerce. |
| Deliver first-class customer service. | As BDC is a customer-centric organization, all Bank employees are committed to supporting quality customer service. |
| Optimize operating efficiency and cost effectiveness. | To improve customer service while controlling administrative expenses, the Bank continues to invest in new technologies to enhance internal efficiencies and productivity. |
| Generate a return on equity (ROE) at least equal to the government's long-term cost of funds, and sufficient profits to build up equity for future growth. | Profitable growth will increase the Bank's equity, enabling further portfolio growth and making it possible to take greater risks in knowledge-based lending. |

| > FISCAL 2000 PERFORMANCE | > ACTUAL | > PLANNED | > FISCAL 2001 OBJECTIVES |
|---|---|---|---|
| *Outstanding loan portfolio* exceeded planned target by $78 million. | $4.9 billion | $4.8 billion | Grow the portfolio to $5.3 billion. |
| *Share of new lending to KBIs and exporters* reached the pre-established target, with 10% to KBIs and 34% to exporters. | 44% | 44% | |
| Share of new financings to KBIs and exporters[1]. | 47% | — | To have 47% of new financings to KBIs and exporters. |
| In fiscal 2000, BDC Consulting Group increased its volume of business by 9% to $19.4 million over fiscal 1999. At 82%[2], the *cost recovery rate* is 5% better than the previous year, even though it is below the 86%[2] initial Corporate Plan objective. | 82% | 86% | Achieve a cost recovery rate of 88%[2]. |
| *Customer satisfaction* with BDC's services exceeded the target by 2%. | 88% | 86% | Achieve 87% customer satisfaction. |
| *Productivity ratio (operating and administrative expenses as a percentage of net interest income)* achieved Corporate Plan level (note that the lower the percentage, the greater the efficiency). | 55% | 55% | Reach a productivity ratio of 54%. |
| *Return on common equity* improved over fiscal 1999, mainly attributable to performance of venture capital investments. | 18.7% | 6.5% | Achieve ROE of 6.0%. |
| The *Internal rate of return (IRR)* for venture capital investments exceeded the target due to favourable divestitures. | 24.6%[3] | 8.9%[3] | Achieve IRR of 7.6%[3]. |

*Fulfil the Bank's mandate in supporting Canadian small businesses while maintaining its innovative business approach.*

*Attract, retain and develop the human resources required to achieve corporate goals.*

*Keep pace with developments in customer care and relationship management, as well as overall risk management by being responsive to small business demands and rigorously managing the higher level of risk undertaken.*

*Optimize the visibility of BDC's financing and consulting solutions to ensure that Canadian small businesses are aware of, and have access to its services.*

*Build on BDC's leadership in e-commerce to accompany small businesses in their adoption of Web solutions, while improving the Bank's internal efficiencies.*

*Ensure that BDC services are representative of the needs of small businesses in every region of Canada.*

*Strengthen the Bank's information technology by constantly upgrading systems to improve productivity and operational efficiency.*

*Operate continuously in a commercially responsible manner*

*Improve relevance, quality and visibility of BDC Consulting Group's services by leveraging on the national network and new technologies.*

1 Includes lending and venture capital.
2 Restated to include transformation costs.
3 Rebased IRR calculation using fair market value of assets as of March 1995.

# REVIEW OF ACTIVITIES

## > BDC // AN IMPORTANT COMPLEMENTARY COMMERCIAL ROLE

As a Crown financial institution, BDC has a mandate to offer Canadian small businesses accessible, flexible and innovative financing and consulting services. In carrying out its mission, BDC also works to fill a void in the financial marketplace relating to insufficient support for riskier loans, smaller loans, loans to knowledge-based industries (KBIs), and lack of flexibility in loan terms and conditions. Accordingly, the Bank's financial activities are designed to complement the services available through commercial financial institutions.

In accordance with its mandate, the profits generated by the Bank will increase BDC's equity, enabling further portfolio growth and making it possible to support small business needs. In fiscal 2000, the Bank provided financing solutions and consulting services to more than 6,000 Canadian small businesses. With the global emergence of a knowledge-based economy, BDC continued to focus particularly on companies whose main assets were intangible.

The Bank's results in this emerging sector show that it is acting locally to help Canada's small businesses compete globally, particularly in terms of electronic commerce, where BDC will continue to lead by helping small businesses rapidly integrate into the new economy.

Fiscal 2000 was, overall, an excellent year for the Bank. Among other things, significant venture capital results accounted for BDC's strong performance. As a complementary lender, the Bank continued to offer timely products and services addressing the needs of smaller businesses.

In fiscal 2000, the Bank also offered professional consulting services. BDC Consulting Group thus continued to provide affordable, customized and effective management solutions for small businesses.

Acknowledging that quality people offer quality service, the Bank acted to strengthen its commitment to being an "employer of choice." Moreover, relying on its customer-oriented professionals, it actively supported high-growth small businesses. In fiscal 2000, BDC renewed its commitment to improving accessibility to its products and services for small businesses through various delivery channels. The Bank's clients thus have access to BDC's more than 80 branches across the country, as well as to BDC Connex®, the Bank's virtual branch created in 1998, which offers all of its products on-line. Small businesses can also access the Bank's products through other means, whether it is by phone or by fax.

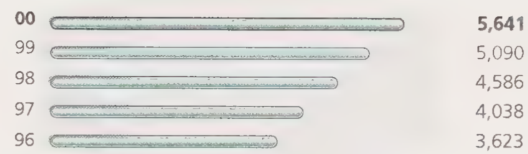
The Bank's willingness to offer a comprehensive multichannel network clearly demonstrates that BDC satisfies the dual aspect of its mandate: acting as a responsible commercial institution and as a public institution fostering easy access for all Canadians.

As a complementary lender, the Bank puts great emphasis on forging strategic alliances to better serve the small business community. In fiscal 2000, through special initiatives designed to help Aboriginal, women and young entrepreneurs, BDC continued to support specific target markets. The Bank also reiterated its strong commitment to quality customer service.

## > AN EXCELLENT YEAR FOR THE BANK

In fiscal 2000, BDC provided small businesses with more than $1.4 billion in financing, an increase of 13 percent from the previous year. Moreover, total financing committed reached $5.6 billion, an 11-percent rise from fiscal 1999. The number of financing customers at year-end totalled 18,807 – the Bank's highest total ever and an increase of 5 percent from the previous year. In fiscal 2000, excluding Student Business Loans and the Global Line of Credit®, repeat business accounted for 41 percent of BDC lending, whereas in 1999 it stood at 40 percent.

AS AT MARCH 31
< $ IN MILLIONS >




FOR THE YEAR ENDED MARCH 31
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* Not available by industry

FOR THE YEAR ENDED MARCH 31
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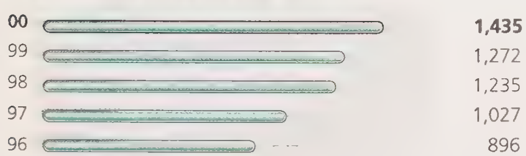
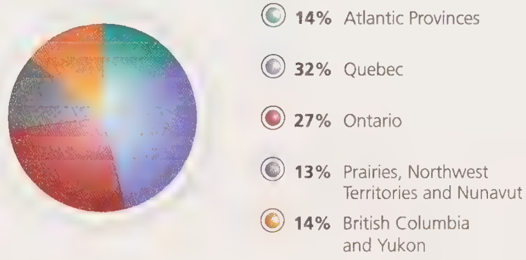



AS AT MARCH 31, 2000



# REVIEW OF ACTIVITIES

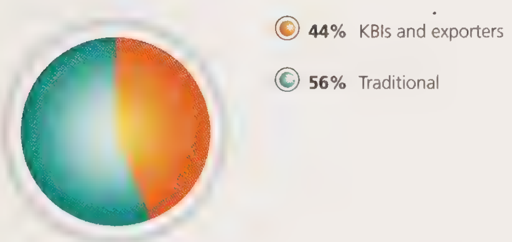
FOR THE YEAR ENDED MARCH 31
< $ IN MILLIONS >


## > COMMITMENT TO LENDING CUSTOMERS // CLASSIFICATION BY PROVINCE OR TERRITORIES

| as at March 31 | 2000 | | 1999 | |
|---|---|---|---|---|
| | **Number of Customers** | **Amount ($ in millions)** | Number of Customers | Amount ($ in millions) |
| Newfoundland | **906** | **181** | 844 | 159 |
| Prince Edward Island | **160** | **47** | 157 | 45 |
| Nova Scotia | **587** | **116** | 571 | 111 |
| New Brunswick | **886** | **209** | 853 | 181 |
| Quebec | **5,991** | **2,222** | 5,404 | 1,938 |
| Ontario | **5,122** | **1,484** | 4,868 | 1,314 |
| Manitoba | **508** | **109** | 497 | 107 |
| Saskatchewan | **575** | **114** | 548 | 107 |
| Alberta | **1,202** | **304** | 1,204 | 290 |
| Northwest Territories and Nunavut | **87** | **29** | 100 | 32 |
| British Columbia | **2,555** | **600** | 2,635 | 614 |
| Yukon | **129** | **31** | 152 | 35 |
| Total | **18,708** | **5,446** | 17,833 | 4,933 |

Lending authorized to KBIs and exporters reached $609 million in fiscal 2000, up 13 percent from the previous year, while their share of total lending remained at 44 percent.

FOR THE YEAR ENDED MARCH 31, 2000

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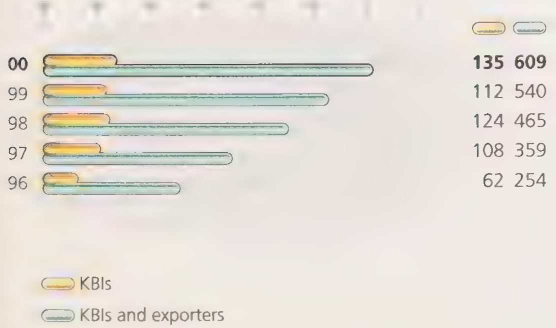


To better serve the needs of high-growth small businesses, BDC put together a specialized and dedicated workforce that will focus on subordinate financing above $250,000. Such loans are expected to represent the major portion of quasi-equity financing in fiscal 2001, allowing the Bank to further increase its financing impact in this sector in Canada.

FOR THE YEAR ENDED MARCH 31
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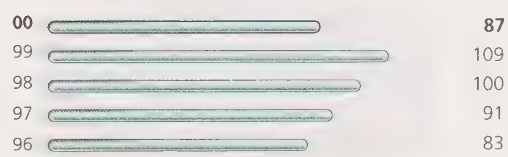
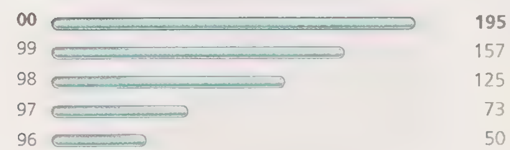



## > VENTURE CAPITAL // AN IMPORTANT INVESTMENT LEVERAGE

The Bank's venture capital activities in fiscal 2000 were significant. BDC's venture capital commitment at year-end reached $195 million, compared to $157 million a year ago – a 24-percent increase. To enhance clients' access to venture capital and to provide additional management expertise, BDC also partners with co-investors. In fiscal 2000, investee companies received an estimated additional $301 million from other investors, for a total of $364 million. The leverage of BDC investments in fiscal 2000 stands at 4.8, compared to 3.8 in 1999. This means that for each dollar of BDC investment, nearly five additional dollars of equity were injected into the company from other sources.

AS AT MARCH 31
< $ IN MILLIONS >

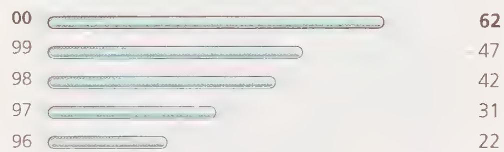


# REVIEW OF ACTIVITIES

FOR THE YEAR ENDED MARCH 31, 2000


BDC actively invests in KBIs from seed through expansion. During fiscal 2000, the Bank authorized 62 venture capital investments for a total of $63 million, compared to 47 investments for $42 million in 1999. In addition, as at March 31, 2000, 96 percent of the venture capital commitment was for KBIs, mostly in the biotechnology/medical/health, electronics, communications and computer-related industries.

FOR THE YEAR ENDED MARCH 31

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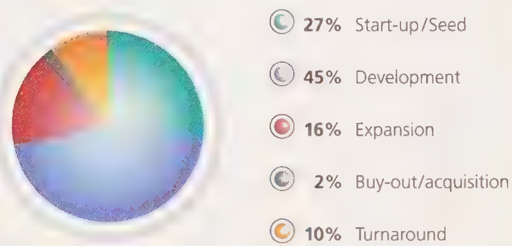
As shown in the 1999 annual survey commissioned by BDC, *Economic Impact of Venture Capital*, venture-backed companies are generally high-growth businesses that perform much better than the economy as a whole. From 1994 to 1998, venture-backed businesses showed a significant average annual growth rate in terms of employment (48 percent), sales (46 percent), exports (72 percent) and R&D (57 percent).

In fiscal 2000, 72 percent of BDC's venture capital investments authorized went to companies in either the start-up or the developmental stage. The Bank has thus chosen the promising path of financing early-stage or exponential-growth companies. In fact, its venture capital portfolio comprises twice as many young accounts as the entire Canadian venture capital industry's portfolio, on average.

FOR THE YEAR ENDED MARCH 31, 2000



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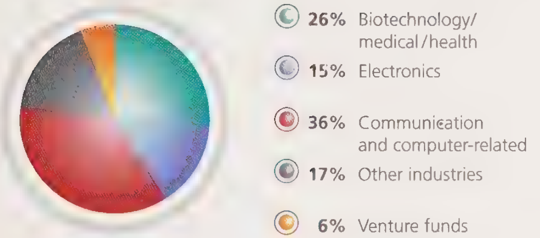



## > ADDRESSING THE NEEDS OF SMALLER BUSINESSES

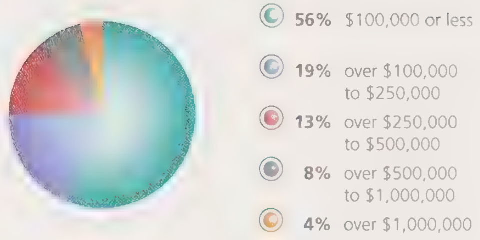
BDC is truly in business for small business, and this is reflected in the results of fiscal 2000. The volume of lending increased to over $1.3 billion this past year, and 56 percent of the transactions were for amounts of $100,000 or less.

Within the overall lending picture, BDC offers micro businesses financial support through such products as the Micro Business Program and the Young Entrepreneur Financing Program. In addition, Student Business Loans and the Global Line of Credit® are both offered on-line by BDC Connex®, the Bank's virtual branch.

BDC has also set up a network of 13 Entrepreneurship Centers to better serve smaller businesses. This past year has seen growth in the activities of the centers, which focus on start-up and growing companies in the knowledge-based sector.

By adopting a resolutely customer-oriented focus in the design of its financial products and services, the Bank has chosen a path that is already yielding concrete and promising results for microbusiness clients.

FOR THE YEAR ENDED MARCH 31, 2000



### > INNOVATIVE PRODUCTS THAT MEET EVOLVING CUSTOMER NEEDS

In fiscal 2000, BDC launched new products that generated interest among existing and potential clients. The Bank regularly adapts its products and management solutions to ensure they reflect the changing requirements of small businesses. Moreover, BDC closely monitors the evolution of new industries to make sure it can meet their latest needs with customized and efficient financial solutions.

Introduced during Small Business Week® in late October, the Productivity Plus Loan is designed to help well-established and export-oriented manufacturing companies obtain technology-enhanced equipment to boost their productivity. In addition to obtaining 100% financing to purchase equipment and tooling, a small business could receive a further 25% for costs related to installing and assembling the equipment and training the employees who will use it. Loans typically exceed $100,000 and can range as high as $5 million. Between November 1999 and March 31, 2000, BDC granted 63 such loans with a total value of $36 million. In March alone, the total loan amount reached $14 million.

Recognizing the importance and extent of e-commerce, which experts estimate will become a US$3-trillion industry by 2003, BDC has chosen to make this sector one of its strategic priorities. The Bank has adapted to this major economic and technological change by designing products that respond to the specific e-commerce needs of small businesses. For instance, entrepreneurs can use Innovation Financing, introduced in fiscal 2000, to finance any project related to developing an Internet, intranet or extranet site, as well as to finance R&D costs, expand into new export markets or adopt quality management solutions. This specific product provides financing up to $250,000 for working capital purposes.

Tourism is the third largest sector in BDC financing activity. In fiscal 2000, the Bank authorized loans totalling $179 million to tourism businesses. As at March 31, 2000, total commitment to this industry reached $907 million, a $44-million increase from a year ago. Tourism is one of the fastest growing industries in Canada and around the world. As this industry has become more sophisticated and innovative, BDC has adapted its Tourism Investment Fund to respond to these changes.


### > BDC CONSULTING GROUP // PROVIDING AFFORDABLE, CUSTOMIZED AND EFFECTIVE MANAGEMENT SOLUTIONS

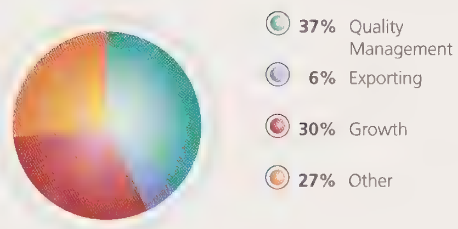
In this increasingly competitive environment, small businesses need the support and advice of qualified professionals more than ever. Through its national network of private sector consultants, BDC Consulting Group helps entrepreneurs assess, plan and implement winning and innovative solutions, especially in the areas of growth, quality, export and e-commerce. Furthermore, BDC Consulting Group is a unifying organization in the Canadian management landscape, since it works with consultants throughout the country.

In fiscal 2000, BDC Consulting Group continued to diversify its activities and to provide customized management solutions to meet entrepreneurs' various needs. Growth Potential Assessment has become a valuable management tool for objectively measuring the strengths and weaknesses of companies wishing to improve their growth potential. In fiscal 2000, BDC Consulting Group revenues reached $19.4 million, a 9-percent increase from fiscal 1999. Quality management revenues accounted for 37 percent of these revenues while growth and export revenues respectively reached 30 percent and 6 percent. In the upcoming year, BDC Consulting Group intends to renew its products, especially in the exporting sector, to better reflect client needs and the global environment.

Establishing fruitful and long-term professional relationships with its clients has always been one of BDC Consulting Group's paramount goals. This customer-oriented approach yielded positive results in the past year. Figures for fiscal 2000 show that BDC Consulting Group's repeat business reached 23 percent, compared to 15 percent in fiscal 1999.

In view of the increasing importance of electronic commerce to small businesses, BDC Consulting Group is acting swiftly to integrate this vital activity into its growth solutions and to provide comprehensive services to clients wishing to do business on the Web. For example, the Tech-Strategy Program, which includes an e-commerce component, is designed to enhance the technological strategy, planning, management and performance of small businesses. BDC Consulting Group will also implement relevant and timely management solutions in the area of succession planning, and will build on its existing synergy with BDC's Financial Services to provide a complete solution package to better serve its small business clients.

FOR THE YEAR ENDED MARCH 31, 2000

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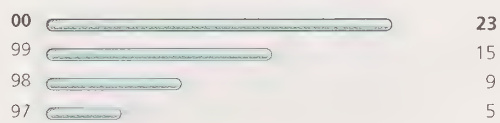


## > QUALITY PEOPLE OFFER QUALITY SERVICE

The principal asset of any organization is the quality of its people. And BDC succeeds because of its committed employees. The Bank's policy is to hire individuals dedicated to small business who, apart from being highly qualified, can deliver first-class customer service. Through diverse internal programs that recognize employees' contributions to the Bank's overall results, BDC has vowed to reinforce its commitment to being an "employer of choice."

The Bank is fully aware that only properly trained and strongly motivated employees can provide quality customer service to both BDC clients and staff. In fiscal 2000, BDC's customer satisfaction level rose to 88 percent, compared to 86 percent in the previous year. The figure for fiscal 2000 was also 2 percent higher than the Bank's forecast. Furthermore, the overall internal satisfaction rate reached an average of 83 percent in fiscal 2000, up 1 percent from fiscal 1999.

FOR THE YEAR ENDED MARCH 31
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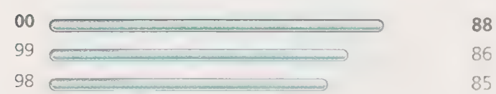


# REVIEW OF ACTIVITIES

BDC has achieved high customer satisfaction levels through a series of initiatives. These include internal plans that involve employees in Bank operations and acknowledge their individual contributions, as well as professional development programs that ensure employees have a broad understanding of the challenges facing small businesses, which helps them better analyze and meet entrepreneurs' needs.

In fiscal 2000, to improve internal efficiency and ensure better quality customer service, BDC created 17 Business Development Centers across Canada. BDC clients greeted this new structure warmly; the centers have achieved excellent customer satisfaction levels and generated strong business volumes. The fact that all of the administrative work is now done by the area branch gives branch officers more time to seek new business and be with their customers.

## > STRATEGIC ALLIANCES

In today's world, companies need to move beyond the traditional concepts of competition by forging mutually beneficial strategic alliances. This is the path that BDC, as an important complementary lender in the Canadian financial environment, has followed for many years. Such agreements help the Bank to better serve small businesses and complement what is offered by other financial institutions in Canada.

The Bank has already concluded strategic alliances with all of Canada's major chartered banks, as well as with credit unions and other organizations. In the past year, BDC and the National Bank of Canada signed a strategic alliance whose main objective is again to give small businesses across Canada increased access to capital and consulting services. This important alliance will help small businesses stimulate their growth, successfully compete in international markets and boost their productivity.

BDC Consulting Group has always focused on strengthening its partnerships with the private sector in order to provide specialized, quality consulting services to small businesses across Canada. In the spirit of this commitment, BDC Consulting Group became a member of the Canadian Association of Management Consultants and the Ordre des administrateurs agréés du Québec. BDC Consulting Group will encourage all of its employees to obtain the professional designations offered by these organizations. This will help BDC Consulting Group members to consolidate their presence in the Canadian consulting industry.

In a knowledge-based society characterized by such factors as new information technologies, e-commerce and globalization, cultural industries represent a growing, albeit high-risk, sector. Through the Cultural Industries Development Fund (CIDF), BDC actively supports the publishing, film and multimedia industries, the latter being one of the flagships of the new economy. In fiscal 2000, through an agreement with BDC, the Department of Canadian Heritage transferred the CIDF loans portfolio to the Bank. Since the transfer, 42 CIDF loans were authorized for a total of $7 million.

For many years, the partnership agreement between BDC and Human Resources Development Canada (HRDC) has helped students create and run a summer business through the Student Business Loans Program. Financed by HRDC and administered by BDC through its virtual branch, BDC Connex®, the program is designed for full-time students who are at least 15 years of age and offers them interest-free loans. In fiscal 2000, 744 such loans were authorized. This program represents a golden opportunity for young people to get acquainted with the fundamentals of running a business, and serves as a training ground for future Canadian entrepreneurs.

## > SPECIAL INITIATIVES

In fiscal 2000, the Bank continued to support Aboriginal, women and young entrepreneurs. BDC also organized and sponsored a large number of small business events to help growing sectors of the Canadian economy.

Through its Aboriginal Banking Unit, BDC contributes to Aboriginal economic development. Total lending committed to support Aboriginal businesses at year-end reached $37 million. The Bank will continue to increase its support of this growing sector of the Canadian economy. In fiscal 2000, BDC adopted a revised strategy on Aboriginal businesses that addressed the major principles laid out in the recommendations of the Royal Commission on Aboriginal Peoples. BDC's strategy, which the Bank will implement in fiscal 2001, focuses on several areas, such as human resources; access to business and support services; the creation of an Aboriginal business development tool; and access to business education for young Aboriginal people. This strategy is designed to continue to increase the Bank's profile and level of activity in the growing Aboriginal market.

Women entrepreneurs are another of BDC's target markets. The Bank recognizes that women-owned firms constitute a fast growing and important segment of the small business market. In fiscal 2000, BDC made over 1,200 lending transactions to women-owned businesses for a total amount of $234 million, a $37-million increase from the previous year. The Bank will continue to work with women entrepreneurs, who are a driving force in the Canadian economy both as business owners and as employers.

Each year since 1979, BDC has presented Small Business Week®, an event that recognizes the accomplishments of Canadian entrepreneurs across the country. In 1999, "Boosting Productivity" was Small Business Week's main theme, and the event brought together 35,000 people who participated in 350 different activities held across Canada. This celebration of Canadian entrepreneurship helps small businesses devise innovative growth, export and e-commerce strategies that enable them to prosper in both Canadian and global markets.

BDC's Young Entrepreneur Awards are always a highlight of the week. The awards mark the accomplishments of young entrepreneurs aged 30 or under from every province and territory. They give the national business community a chance to applaud the innovation and hard work of a new entrepreneurial generation and to identify the future leaders of the Canadian business community.

The Bank matches the winners with a renowned business leader in their province or territory, who becomes their mentor for one year. Mentors act as coaches, helping young entrepreneurs broaden their business skills, enlarge their network of contacts and tackle new challenges. One of the 13 winning businesses also receives the Export Achievement Award, which Export Development Corporation presents to the small business that has best opened up new international markets.

In addition to Small Business Week, BDC sponsors Info-Fairs throughout Canada. These events, organized by Industry Canada, give entrepreneurs the opportunity to discuss important issues, such as e-commerce and start-up strategies. Info-Fairs also inform entrepreneurs about existing government products, programs and services.

Through its Web site (**www.bdc.ca**) and publications, such as *Profit$* magazine and *BDC News On-Line*, the Bank offers small businesses timely and relevant information on important issues. BDC's Web site truly represents a virtual library for new, growing and exporting businesses. Entrepreneurs can access useful information on BDC products, services and publications, as well as hundreds of hyperlinks to other sites of interest. Small business owners can also find tools, such as the Entrepreneur Self-Assessment Guide and the Business Plan, which are designed to help them evaluate their entrepreneurial skills and the viability of their business ideas.

# REVIEW OF ACTIVITIES

## > A STRONG COMMITMENT TO QUALITY CUSTOMER SERVICE

At BDC, all employees are expected to support quality customer service. To uphold this commitment, BDC developed the TOTAL CARE Program a few years ago. The Program is based on a detailed Charter of Client Rights outlining the standards the Bank has vowed to meet. It also includes a process for the handling of customer complaints and offers the services of an ombudsperson.

*"Our mission is to assist in the start-up and development of small Canadian businesses by creating and delivering innovative, high-quality financial and consulting services. We, the Bank's employees, pledge to exercise sound judgment in all credit decisions, to assess risks with care, and to be prudent in our expenditures. We also pledge to maintain a high standard of conduct toward you, our client, and to offer exemplary service in all our dealings with you. We hereby make a commitment to the following principles: accountability, openness, fairness, confidentiality and process."*

Excerpts from the
Charter of Client Rights

## >> Making a // Difference

At BDC, our employees are making a difference by responding effectively to the needs of entrepreneurs. By listening carefully to everyone who seeks our assistance, the Bank has been able to develop with its small business clients a long-term relationship based on mutual trust and respect. When it comes to serving its clients, the Bank's employees are prompt to communicate clearly and concisely the required information.

**> Cécile Cournoyer, Manager //**
Staffing Policies and Programs, Head Office, Montreal and Tom Poirier, Accounting Officer

"Research and real life experience tell us that employees need and appreciate recognition. We recently introduced two new plans that have moved us in that direction. *Bravo* allows supervisors to congratulate employees on the spot, in front of their peers, for a job well done and to award them with a gift that is meaningful to them. *Partners* takes into account changing trends and demographics, by celebrating employees with five or more years of service and recognizing this achievement with a Bank memento of their choice. With both these plans, we're giving supervisors tools to provide BDC employees with meaningful recognition."

>> Financing at the speed of innovation ... //

# REVIEW OF ACTIVITIES

> **Cindy Mercanti, Partner //** BDC Consulting Group, Hamilton, Bill and Elaine Huisman, owners of BHC Cable Assemblies Inc., and Keith Munro, BDC consultant

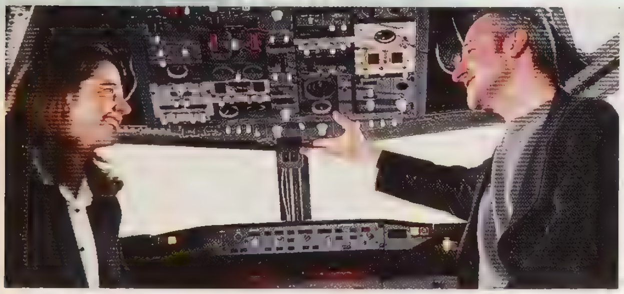
"Our biggest competitive advantage is thinking outside the box. At BDC Consulting Group, we're about much more than theory and written reports; we're a hands-on organization that concentrates on results. We see ourselves as partners with our clients, brainstorming with them and getting down in the trenches to help solve their growth, quality management and export challenges or issues. We work to find the solution that's right for them. Our 'roll-up-our-sleeves' approach has proven successful year after year, resulting in repeat business. The best way to sum up our service is this: we provide our clients with a workable and cost-effective solution. Isn't that what consulting is all about?"

> **David Bennett, Managing Director //** Venture Capital, Vancouver and Tom Kordyback, Chief Financial Officer, Creo Products Inc.

"Although CREO, a manufacturer of computer-to-plate printing equipment, actively tried in 1994, during second-round financing, to attract venture capitalists to invest in the expansion of its business, no one got involved. Having been one of CREO's initial investors, we knew the company well. Impressed by their fantastic team and high quality, innovative product, people within the Bank's Vancouver branch worked hard to promote a second investment by BDC and made it happen. Moreover, the market reacted very well to the Initial Public Offering. It turned out to be an excellent business decision. CREO is now the dominant company in its field with branches worldwide. Not only is it B.C.'s largest manufacturer, but it's worth $3 billion Canadian with annual revenues that are soon expected to hit $1 billion."

> **Michel Paulo, Project Analyst //** and Carla Hehner-Rivard, Senior Project Analyst, BDC Connex®, 1 888 INFO-BDC

"I've discovered that working in the Bank's virtual branch means you are always learning; you have to keep up with technological advancements, adopt new techniques and stay open to change. Customer attitudes towards virtual banking are changing, too. People are realizing that you don't just deal with a machine at the end of the line, but that there's a real person there! And as more and more Canadians get on the Net, they're becoming curious about on-line financing and trying it out. Clients from right across the country are quickly discovering how much time they can save by dealing with the virtual branch. As a result, the number of loans we handle electronically is increasing every month."



> **Nathalie Goetz, Manager //** Subordinate Financing, Saint-Laurent and Fernando Petruzziello, President of Mechtronix Systems Inc.

"I deal with clients who are either technology based or who use technology extensively in their business. I need to understand their business. And that's why I'm currently working on a Master's degree in applied sciences at the École Polytechnique in Montreal. My studies are helping me gain valuable knowledge about what happens on the shop floor and about the issues my clients face. They are often pleasantly surprised to realize I can relate to what they do. Not only does this give me more credibility, it also helps us to control the risk we take and better understand our clients' needs."

> **Rod MacDonald, Area Branch Manager //** Halifax and Len Reid, President of Atlantic Shelving Ltd.

"We've turned around a situation in Nova Scotia that caused some branch officers to lack time to seek new clients. With customer service as the cornerstone of our Business Development Center pilot project, we centralized administration in Halifax. The results speak for themselves. Not only have customer satisfaction levels and our internal inspection results improved significantly, but the volume of business has increased by 70 percent. Clients who call the Halifax administrative center get an immediate response from an officer familiar with their file. This structure has worked so well it's been extended from three branches to 17 across Bank territory. Above all, branch officers now have more time to go out and meet with potential clients at their place of business."

> **Tim Laronde, Branch Manager //** Entrepreneurship Center, North York, and Susan Ramsey, President of The Moving Store Franchise Systems Inc.

"Dealing with today's new entrepreneurs means you have to change your mind-set about the way you do business. Many of their proposals involve the knowledge-based industry sector. When they come to the Entrepreneurship Center, they bring enthusiasm, vigour and imaginative ideas. Ten years ago, they never would have been able to attract financing. But we've learned to look beyond the existing security of these types of businesses and focus on their strengths and potential to be a success. Their innovative spirit and willingness to take risks fit well with the Bank's goal of being innovative as a lender. And many of these clients have become extremely successful."


## Y2K > WITH THE ATLANTIC GROUNDFISHERY

undergoing a patch of rough water, the local population has shaped a new vision for the industry – aquaculture or seafood "farming" – which provides a variety of seafood, from mussels to Atlantic salmon. Financial support from BDC and aggressive research and development programs enabled the aquaculture industry, which began on a commercial basis in the 1970s, to grow quickly in all four Atlantic provinces. In New Brunswick, for example, revenues from farmed Atlantic salmon today exceed those of any other single agricultural export.

>> FINANCING AT THE SPEED OF INNOVATION ... //

# ATLANTIC PROVINCES

"We've now doubled our hourly production – that's what our term loan for equipment helped us achieve. The company continues to win our clients' loyalty by increasing their farm production with quality feed. Today, we're exporting more than 50 percent of our products to the U.S. And we've [illegible] partnered with the Bank to complete our ISO 9002 certification, which has changed our production rework figure from 15 percent to 7 percent."

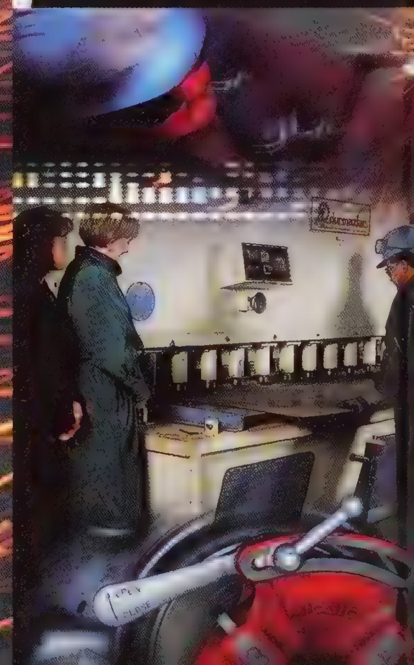
> **Lee Corey, President //**
> Corey Feed Mills Ltd. < Fredericton, New Brunswick >

> **COREY FEED MILLS LTD. //** is a leading producer of animal feed products, including those used for aquaculture.

> **PRESSURE PIPE STEEL FABRICATION LTD. //** is 100-percent Aboriginal-owned company that manufactures a diversity of steel products, including containment tanks.

"Diversification has been key to our success. We saw early on that our steel products were built to last and might outlive our company. That's why we've picked up other revenue-increasing business, such as steel distribution. To maintain that competitive edge, we upgraded our highly specialized equipment with a BDC term loan and are currently working with the Bank to complete our ISO 9002 certification."

> **Hilda Broomfield, President //**
Pressure Pipe Steel Fabrication Ltd. < Happy Valley-Goose Bay, Newfoundland and Labrador >



# ATLANTIC PROVINCES

FOR THE YEAR ENDED MARCH 31
< $ IN MILLIONS >


FOR THE YEAR ENDED MARCH 31
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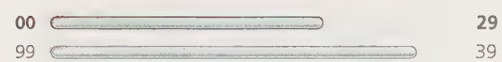


AS AT MARCH 31
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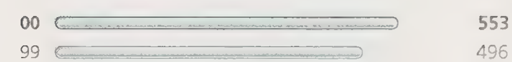



## LENDING AUTHORIZED // CLASSIFICATION BY PROVINCE

| for the year ended March 31 | 2000 | | 1999 | |
|---|---|---|---|---|
| | **Number** | **Net amount ($000)** | Number | Net amount ($000) |
| Newfoundland | **260** | **$ 47,585** | 272 | $ 39,325 |
| Prince Edward Island | **50** | **9,930** | 48 | 9,599 |
| Nova Scotia | **160** | **26,835** | 140 | 24,114 |
| New Brunswick | **236** | **55,781** | 226 | 48,542 |
| **Total** | **706** | **$140,131** | 686 | $121,580 |
| **Share of lending authorized to KBIs and exporters** | | **29%** | | 39% |

## COMMITMENT TO LENDING CUSTOMERS // CLASSIFICATION BY PROVINCE

| as at March 31 | 2000 | | 1999 | |
|---|---|---|---|---|
| | **Number of customers** | **Amount ($000)** | Number of customers | Amount ($000) |
| Newfoundland | **906** | **$180,915** | 844 | $159,125 |
| Prince Edward Island | **160** | **47,130** | 157 | 44,773 |
| Nova Scotia | **587** | **116,206** | 571 | 110,832 |
| New Brunswick | **886** | **208,700** | 853 | 181,167 |
| **Total** | **2,539** | **$552,951** | 2,425 | $495,897 |

## CONSULTING GROUP

| for the year ended March 31 | 2000 | 1999 |
|---|---|---|
| | **Amount ($000)** | Amount ($000) |
| Revenue | **$ 2,114** | $ 1,903 |

### > NOVA SCOTIA AND NEWFOUNDLAND

Vice-President and Area Manager:
**Ross Miller**
Branches:
Bridgewater (N.S.), Corner Brook (Nfld.), Grand Falls-Windsor (Nfld.), Halifax (N.S.)*, St. John's (Nfld.), Sydney (N.S.), Truro (N.S.)

### > NEW BRUNSWICK AND PRINCE EDWARD ISLAND

Vice-President and Area Manager
**Timothy Murphy**
Branches
Bathurst (N.B.), Charlottetown (P.E.I.), Edmundston (N.B.), Fredericton (N.B Moncton (N.B.)*, Saint John (N.B.)

* Location of Entrepreneurship Centers

Y2K

## > QUEBEC BOASTS

more than 2,100 companies, in the Montreal area, employing some 83,000 people in the telecommunications and information technology industries. In fact, over the last 10 years, 40 percent of new jobs created in the area have been knowledge-based – the highest level of anywhere in Canada. The Cité du Multimédia, for example, has attracted a wide range of multimedia firms and is projected to create 10,000 jobs in only three years. BDC is proud to support Quebec's multimedia entrepreneurs, who have a growing international reputation for creativity and innovation.

# QUEBEC

"We are well positioned to take advantage of [illegible] naturally to new technologies and has [illegible] shared our confidence in our ability to [illegible] needed to back projects in development [illegible]

> **Pierre Bernatchez, President //**
> CinéGroupe Média – Mont[illegible]

**CINÉGROUPE MÉDIA //**, a subsidiary of CinéGroupe Corporation, specializes in the design and development of on-line and off-line interactive applications for the entertainment and education markets.

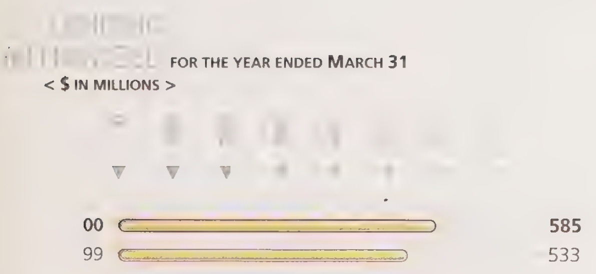
## >> Financing at the speed of Canada's innovators ... //

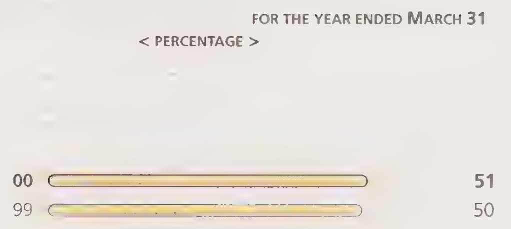
> **FRUITS & PASSION INC. //** designs, manufactures and distributes a quality line of fruit-inspired body and bath care products through its network of stores, outlets and the Web.

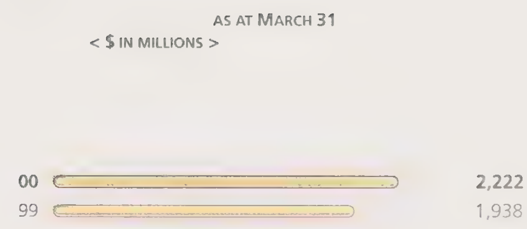
"We have the winning formula for the Canadian and American bath and body care markets, and now we're tackling the international front with new stores in Taiwan and France. Forty-percent annual growth is a great reward for our commitment to quality and image. And we were able to accommodate our rapid expansion by building a new 60,000-square-foot factory with a term loan from BDC."

> **Jean Hurteau, President //**
Fruits & Passion Inc. < Candiac >

# QUEBEC




## LENDING AUTHORIZED

| for the year ended March 31 | 2000 | | 1999 | |
|---|---|---|---|---|
| | **Number** | **Net amount ($000)** | Number | Net amount ($000) |
| Quebec | **2,113** | **$ 585,130** | 1,978 | $ 533,400 |
| **Share of lending authorized to KBIs and exporters** | | **51%** | | 50% |

## COMMITMENT TO LENDING CUSTOMERS

| as at March 31 | 2000 | | 1999 | |
|---|---|---|---|---|
| | **Number of customers** | **Amount ($000)** | Number of customers | Amount ($000) |
| Quebec | **5,991** | **$2,222,261** | 5,404 | $1,938,200 |

## CONSULTING GROUP

| for the year ended March 31 | 2000 | 1999 |
|---|---|---|
| | **Amount ($000)** | Amount ($000) |
| Revenue | **$ 7,837** | $ 6,913 |

### > LAVAL

Vice-President and Area Manager:
**Gilles Lapierre**
Branches:
Laval*, Saint-Jérôme, Thérèse-de-Blainville

### > MONTREAL

Vice-President and Area Manager:
**Michel Crête**
Branches:
De Maisonneuve, Place Ville Marie*, Saint-Léonard

### > EASTERN QUEBEC

Vice-President and Area Manager:
**Patrice Bernard**
Branches:
Chicoutimi, Quebec*, Rimouski, Trois-Rivières

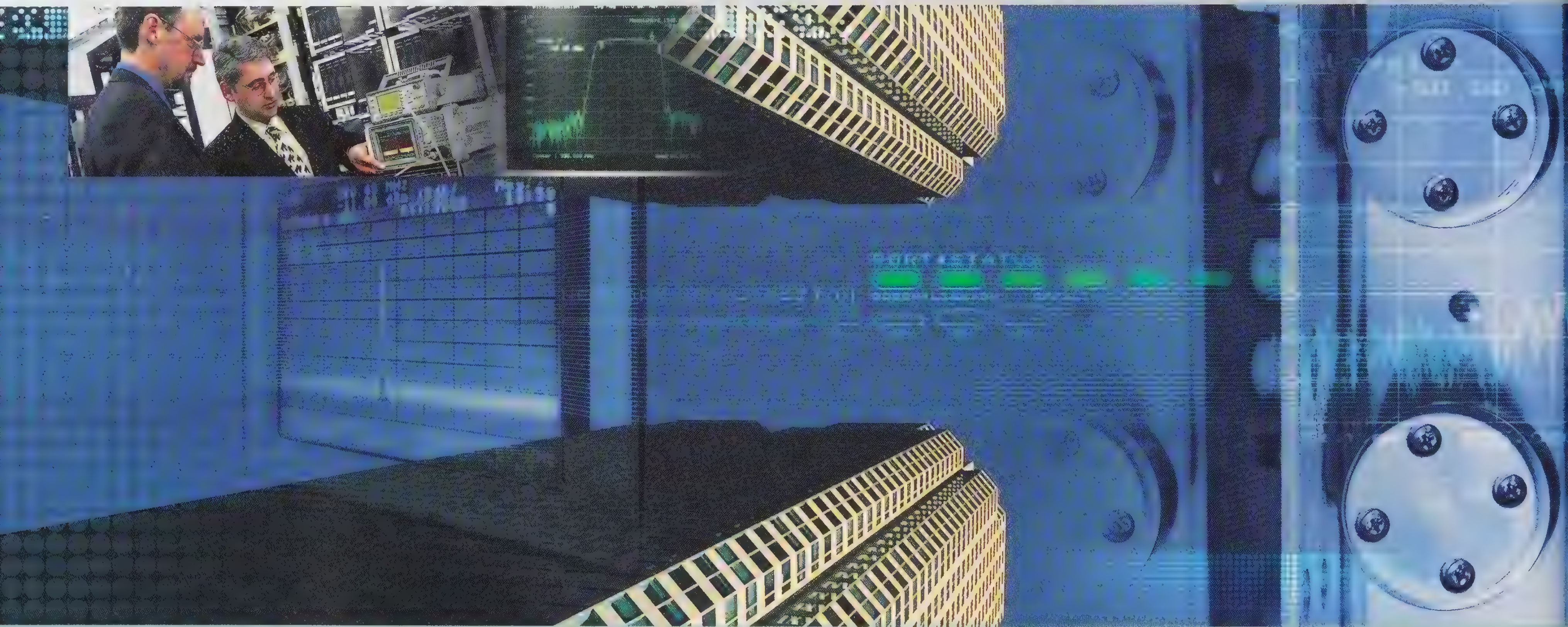
### > SOUTHERN QUEBEC

Vice-President and Area Manager:
**Guy Gervais**
Branches:
Drummondville, Granby, Longueuil*, Sherbrooke

### > WESTERN QUEBEC

Vice-President and Area Manager
**Daniel Martel**
Branches:
Hull, Pointe-Claire, Rouyn-Noranda, Saint Laurent*

* Location of Entrepreneurship Centers



Y2K > AS THE NEW ECONOMY TAKES HOLD,

knowledge-based businesses are flourishing throughout Ontario. Major high-tech businesses, as well as hundreds of other smaller companies, are all playing a role in the global communications revolution. Ottawa-Carleton, for example, with its highly developed digital communications infrastructure and a 10-percent annual growth rate in the high-tech industry, is increasingly being referred to as "Silicon Valley North." With a particular focus on investing in the high-tech sector, BDC is playing a strategic role in helping firms across the province set up and compete in the fast-paced world of advanced technologies.

# ONTARIO

"Financing research and development is a driving force for us, BDC [illegible]
in our ability to stay ahead of the competition with our 100% [illegible]
revenues have grown 500 percent, and our exports have reached [illegible]
Now that we've achieved ISO 9001 certification using the Bank's [illegible]
play tough in the international market."

> **David Quinn, President and CEO //**
> Kaval Telecom Inc < Markham >

**KAVAL TELECOM INC. //** designs and manufactures wireless technology that extends coverage of cellular, PCS and paging services into buildings and other hard-to-reach locations.

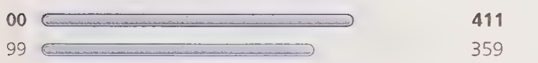
> **HEALTHWARE TECHNOLOGIES INC. //** is a leader in the design, development and support of fully integrated health care information systems.

"Our 78-percent revenue growth in the past year is a sign that we're doing things right. After cutbacks in the health care field, there was a pent-up demand for information systems, and we responded with software solutions that support delivery of responsive patient care with comprehensive information. Our BDC Working Capital and Venture loans were used primarily for marketing, allowing us to better inform our Western Canadian clients about the benefits of our products and increase our market penetration across Canada."

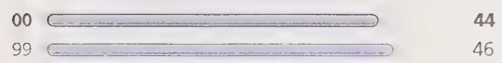
> **Vicky Paine-Mantha, President and CEO //**
Healthware Technologies Inc. < North Bay >

# ONTARIO

FOR THE YEAR ENDED MARCH 31
< $ IN MILLIONS >




FOR THE YEAR ENDED MARCH 31
< PERCENTAGE >




AS AT MARCH 31
< $ IN MILLIONS >


## LENDING AUTHORIZED

| for the year ended March 31 | 2000 | | 1999 | |
|---|---|---|---|---|
| | Number | Net amount ($000) | Number | Net amount ($000) |
| Ontario | 1,590 | $ 410,736 | 1,461 | $ 359,331 |
| Share of lending authorized to KBIs and exporters | | 44% | | 46% |

## COMMITMENT TO LENDING CUSTOMERS

| as at March 31 | 2000 | | 1999 | |
|---|---|---|---|---|
| | Number of customers | Amount ($000) | Number of customers | Amount ($000) |
| Ontario | 5,122 | $1,484,152 | 4,868 | $1,313,786 |

## CONSULTING GROUP

| for the year ended March 31 | 2000 | 1999 |
|---|---|---|
| | Amount ($000) | Amount ($000) |
| Revenue | $ 5,841 | $ 4,568 |

### > MISSISSAUGA

Vice-President and Area Manager:
**Thomas Gallant**
Branches:
Brampton, Hamilton, Mississauga*, St. Catharines

### > TORONTO

Senior Vice-President and Area Manager: **Simone M.A. Desjardins**
Branches:
Barrie, North York*, Toronto, Toronto North

**Toronto East District**
Vice-President and District Manager:
**Brendan Cunneen**
Branches:
Markham, Oshawa, Peterborough, Scarborough

### > EASTERN AND NORTHERN ONTARIO

Vice-President and Area Manager:
**Pauline Rochefort**
Branches:
Kingston, Ottawa*

**Sudbury District**
Vice-President and District Manager:
**Kevin Dane**
Branches:
Kenora, North Bay, Sault Ste. Marie, Sudbury, Thunder Bay, Timmins

### > SOUTHERN ONTARIO

Vice-President and Area Manager
**Ronald Panetta**
Branches:
Kitchener, London, Stratford, Windsor

* Location of Entrepreneurship Centers

Y2K > PRODUCTION OF MEDIUM AND CRUDE OIL in the Prairies, Northwest Territories and Nunavut has become much more feasible in recent years, thanks to technological advances that have helped reduce costs, increase productivity and open new areas for development. At the same time, growth in key export markets and robust commodity pricing have contributed to steady expansion – 35 percent since 1995 – with both production and export capacity continuing to increase. With BDC's support, the industry has been able to not only weather the fallout from the Asian financial crisis, but to position itself well for future market growth.

# PRAIRIES, NORTHWEST TERRITORIES AND NUNAVUT

"As a management performance efficiency business [illegible] our customers. BDC's Micro Business Program [illegible] We also used the Bank's consulting services in order to [illegible] 100-percent monthly growth in revenues points to a bright future."

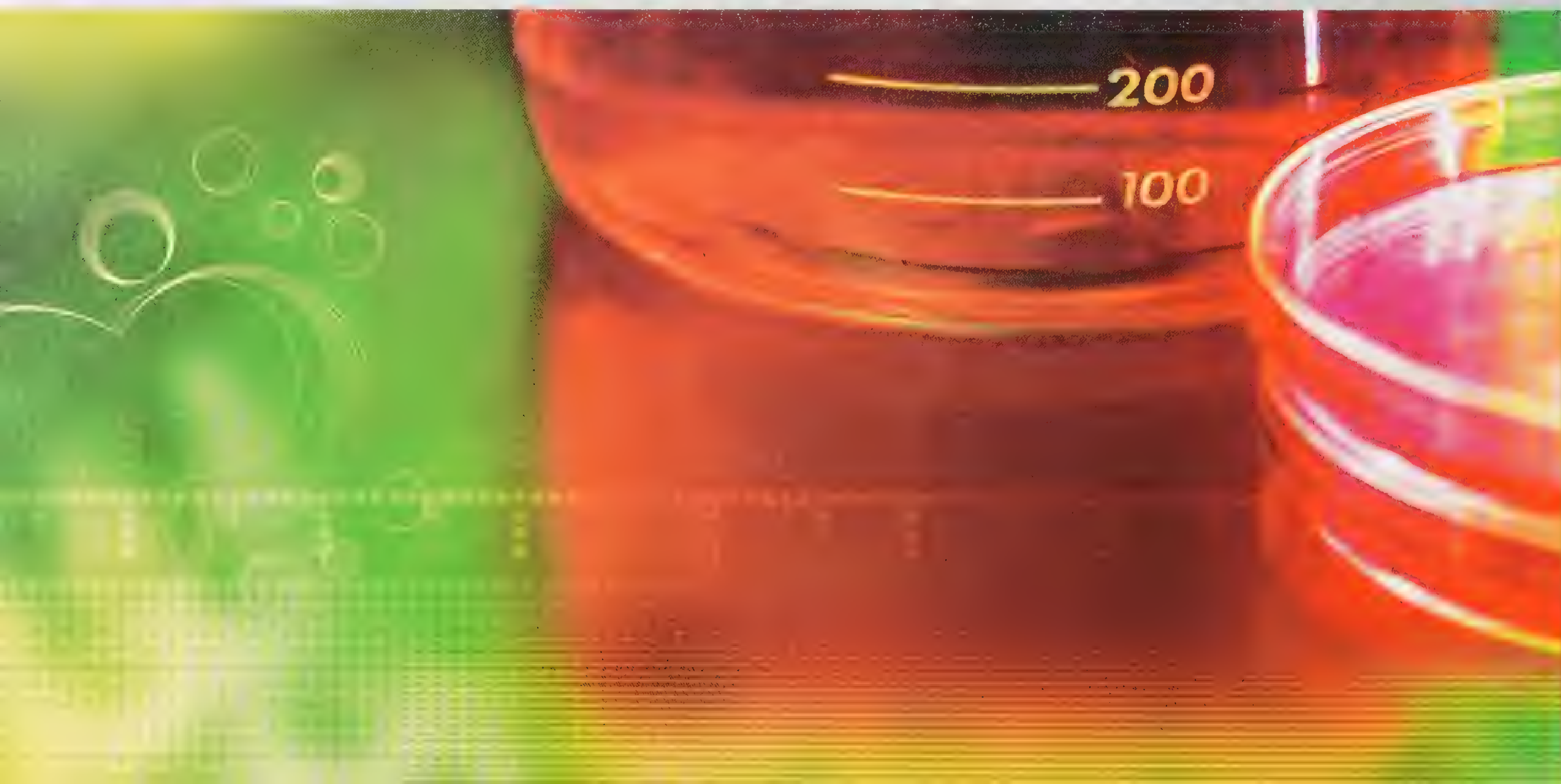
> **Wayne Shaw, President** //
> Procall Management Ltd. < Calgary, Alberta >

**PROCALL MANAGEMENT LTD.** // offers its clients, primarily in the oil and gas industry, an innovative management software package that helps them work smarter.

> **CYTOVAX BIOTECHNOLOGIES INC. //** is a leading company specializing in novel vaccines and therapeutics for infectious diseases.

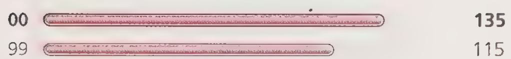
"BDC's knowledge and expertise in the biotechnology field really made a difference to us. The Bank not only gave us financial resources, but also advice and contacts that helped the company's product development and partnering efforts. BDC's venture capital investment was used largely for research and development, which is the core of our business. We're very proud of our company's progress and look forward to starting clinical trials of our lead product in the near future."

> **Dr. Bin Huang, President and CEO //**
Cytovax Biotechnologies Inc. < Edmonton, Alberta >

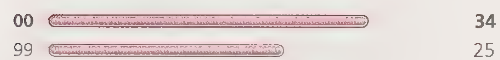



# PRAIRIES, NORTHWEST TERRITORIES AND NUNAVUT

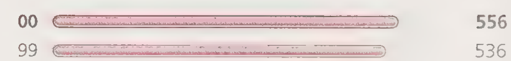
FOR THE YEAR ENDED MARCH 31
< $ IN MILLIONS >




FOR THE YEAR ENDED MARCH 31
< PERCENTAGE >




AS AT MARCH 31
< $ IN MILLIONS >




## LENDING AUTHORIZED // CLASSIFICATION BY PROVINCE AND TERRITORIES

| for the year ended March 31 | 2000 | | 1999 | |
|---|---|---|---|---|
| | **Number** | **Net amount ($000)** | Number | Net amount ($000) |
| Manitoba | **242** | **$ 28,524** | 222 | $ 15,745 |
| Saskatchewan | **391** | **27,122** | 452 | 23,341 |
| Alberta | **585** | **73,443** | 513 | 69,471 |
| Northwest Territories and Nunavut | **21** | **6,334** | 20 | 6,676 |
| **Total** | **1,239** | **$135,423** | 1,207 | $115,233 |
| **Share of lending authorized to KBIs and exporters** | | **34%** | | 25% |

## COMMITMENT TO LENDING CUSTOMERS // CLASSIFICATION BY PROVINCE AND TERRITORIES

| as at March 31 | 2000 | | 1999 | |
|---|---|---|---|---|
| | **Number of customers** | **Amount ($000)** | Number of customers | Amount ($000) |
| Manitoba | **508** | **$108,654** | 497 | $107,173 |
| Saskatchewan | **575** | **113,751** | 548 | 106,785 |
| Alberta | **1,202** | **304,189** | 1,204 | 290,057 |
| Northwest Territories and Nunavut | **87** | **29,256** | 100 | 32,192 |
| **Total** | **2,372** | **$555,850** | 2,349 | $536,207 |

## CONSULTING GROUP

| for the year ended March 31 | 2000 | 1999 |
|---|---|---|
| | **Amount ($000)** | Amount ($000) |
| Revenue | **$ 1,959** | $ 2,452 |

### > MANITOBA AND SASKATCHEWAN

Vice-President and Area Manager:
**Joy Playford**
Branches:
Brandon (Man.), Regina (Sask.), Saskatoon (Sask.), Winnipeg (Man.)*

### > NORTHERN ALBERTA, NORTHWEST TERRITORIES AND NUNAVUT

Vice-President and Area Manager:
**Terry Quinn**
Branches:
Edmonton (Alta.),
Grande Prairie (Alta.), Red Deer (Alta.),
Yellowknife (N.W.T. and Nunavut)

### > SOUTHERN ALBERTA

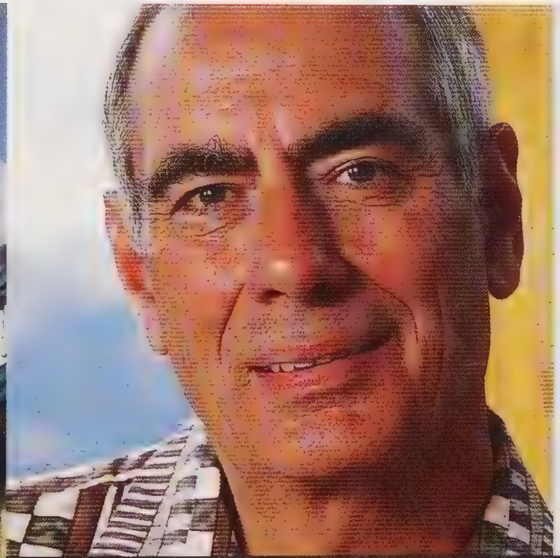
Vice-President and Area Manager
**Sarah Deschênes**
Branches
Calgary, Calgary North*, Lethbridge

* Location of Entrepreneurship Centers

> THE YUKON

Y2K > ADVENTURE TOURISM IS A MAJOR growth sector outpacing every other sector of the Canadian economy. And there's no better spot in the world for adventure than Canada's west coast, which offers everything from skiing and mountain climbing to diving. Whether tourists are seeking adventure or more leisurely activities such as golf or boating, there's something for everyone. A record 22.3 million tourists visited B.C. in 1999, generating a new high of $9.2 billion in revenues. The Yukon is attracting yet another type of visitor by offering travel and labour rebates to film, TV and commercial productions. And BDC is there to help local businesses provide visitors with an unforgettable experience.

# BRITISH COLUMBIA AND YUKON



"BDC's Tourism Investment Fund helped us build our dream – a 75-room, log-theme [illegible] designed to maintain the integrity of our natural property nestled in the mountains. [illegible] a vacation resort that could integrate the diversity of outdoor activities available in the [illegible] year-round revenue growth. Our business plan is now becoming a reality."

> **Peter Schlunegger, Co-owner //**
> The Hillcrest Resort Hotel Ltd. < Revelstoke, British Columbia >

> **THE HILLCREST RESORT HOTEL //**, a year-round resort located at the gateway to Glacier and Mount Revelstoke national parks, targets heli-skiing clients and other vacationers.

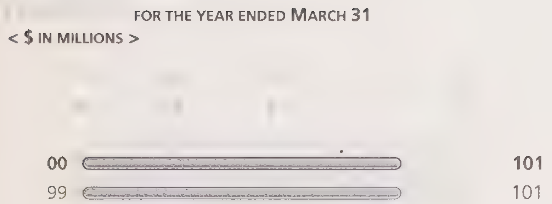
>> FINANCING AT THE SPEED OF CANADA'S INNOVATORS ... //

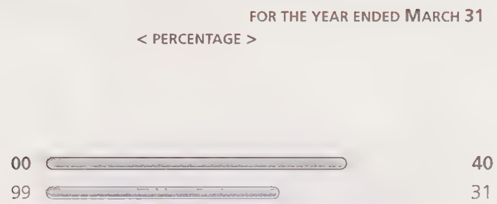
> **NCOMPASS LABS //** is the innovator behind a unique software package that helps companies manage their growing volume of Web content.

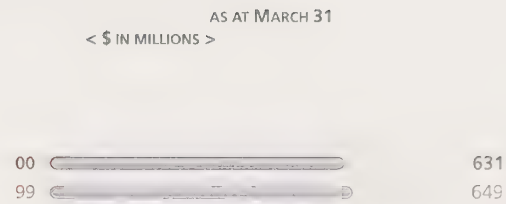
"Content is definitely the cornerstone of e-commerce today, so we offer clients a software application to manage content effectively. In four years, our flagship product has driven our growth from five to nearly 120 employees, so our company has become a strong player in a multimillion-dollar industry. Our BDC Venture Capital financing was a vital part of completing our product development and commercialization activities."

> **Gerri Sinclair, President and CEO //**
NCompass Labs < Vancouver, British Columbia >

# BRITISH COLUMBIA AND YUKON




## LENDING AUTHORIZED // CLASSIFICATION BY PROVINCE AND TERRITORY

| for the year ended March 31 | 2000 | | 1999 | |
|---|---|---|---|---|
| | Number | Net amount ($000) | Number | Net amount ($000) |
| British Columbia | **685** | **$ 97,692** | 658 | $ 93,876 |
| Yukon | **17** | **3,380** | 45 | 6,710 |
| **Total** | **702** | **$101,072** | 703 | $100,586 |
| **Share of lending authorized to KBIs and exporters** | | **40%** | | 31% |

## COMMITMENT TO LENDING CUSTOMERS // CLASSIFICATION BY PROVINCE AND TERRITORY

| as at March 31 | 2000 | | 1999 | |
|---|---|---|---|---|
| | Number of customers | Amount ($000) | Number of customers | Amount ($000) |
| British Columbia | **2,555** | **$600,392** | 2,635 | $614,148 |
| Yukon | **129** | **30,703** | 152 | 34,999 |
| **Total** | **2,684** | **$631,095** | 2,787 | $649,147 |

## CONSULTING GROUP

| for the year ended March 31 | 2000 | 1999 |
|---|---|---|
| | Amount ($000) | Amount ($000) |
| Revenue | **$ 1,645** | $ 1,987 |

### > VANCOUVER

Vice-President and Area Manager:
**Karl Reckziegel**
Branches:
Campbell River, Nanaimo, North Vancouver, Terrace, Vancouver*, Victoria

### > FRASER AND OKANAGAN VALLEY

Vice-President and Area Manager:
**Brian Forward**
Branches:
Kelowna (B.C.), Langley (B.C.), Fraser Central (B.C.), Whitehorse (Yukon)

**BC Interior District**
Vice-President and District Manager
**Richard Goulet**
Branches:
Cranbrook, Fort St. John, Kamloops Prince George, Williams Lake

* Location of Entrepreneurship Center

# CORPORATE GOVERNANCE

Effective corporate governance is key to maintaining the Bank's position as a leading financial institution dedicated exclusively to small and medium-sized businesses. Our Board of Directors, a group whose members represent both the geographic and professional diversity of BDC customers, believes strongly in this idea.

Clients and other stakeholders want more accountability and better performance from all public bodies, and the Bank wants to maintain and expand its leadership role in the Canadian small business sector. As a result, the Bank works constantly to fine tune, enhance and improve its corporate governance. A flexible yet strong governance regime helps the Bank balance its twin priorities: filling a vital need in the Canadian economy and operating according to solid business principles.

The Board met eight times in fiscal 2000. Four meetings, held in different locations across Canada and organized around special events with Bank clients and influencers, allowed Board members to gain a fuller understanding of local issues.

In directing and managing the business affairs of the Bank, the Board and its committees monitor the effectiveness of the Bank's corporate governance practices and approve necessary changes; approve the strategic direction and Corporate Plan; monitor corporate performance; approve compensation policies; ensure business risks are properly identified and appropriate risk management systems implemented; ensure the proper financial reporting, financial control and audit systems are operating; oversee succession planning; and ensure timely communication with all stakeholders.

In line with governance best practices, the Board refers different matters to the committees and delegates responsibility to them for considering, reviewing, monitoring or supervising matters, and making recommendations.

Over the last year, the Board's committees accomplished the following to help the Bank fulfil its mandate to deliver financial and consulting services to Canadian small business.

### > EXECUTIVE COMMITTEE

The **Executive Committee** deals with pressing matters that emerge between Board meetings. It met 30 times last year to approve loans and investments that exceeded the powers delegated to management and to exercise other powers determined by the Board.

Chairperson: Michel Vennat

Members: Terry B. Grieve, Peter G. Jollymore, Kevin G. Lynch, Bernie Schroder, Gregory Sorbara

## > GOVERNANCE COMMITTEE

The **Governance Committee** considers matters related to the Bank's corporate governance practices. For example, it helps determine the structure, mandate and membership of the Board's committees, and recommends ways to enhance Board performance. In fiscal 2000, members thoroughly reviewed all committees' responsibilities in conjunction with the governance guidelines that apply to private and Crown corporations. As a complement to its discussions on governance best practices, the Committee organized a full-day workshop with members of the Board and senior management to identify priority governance issues for the next fiscal year and to develop an exhaustive action plan.

Chairperson: Peter G. Jollymore

Members: Jennifer Corson, James A. Durrell, Kevin G. Lynch, Cindy Sprague, Michel Vennat

## > HUMAN RESOURCES COMMITTEE

The Bank believes strongly that its success is rooted in its people. The **Human Resources Committee** works to shape BDC into a learning organization that offers high quality training programs to a workforce of competent, productive and motivated employees. The Committee reviews the Bank's succession plans, compensation policy and strategic plans for human resources, and approves the annual compensation budget. In fiscal 2000, the Committee met eight times. It monitored the Bank's progress in retaining its dynamic workforce, and focused on ensuring that pay mix and pay levels for each business group remained competitive.

Chairperson: Peter G. Jollymore

Members: Leo E. Cholakis, Jennifer Corson, Roger Plamondon, Gregory Sorbara, Cindy Sprague

## > BUSINESS DEVELOPMENT COMMITTEE

Industries, regional economies and the Canadian marketplace itself evolve constantly. The **Business Development Committee** helps the Board respond to those changing needs by assessing the shifting environment and providing policy direction. At its four meetings, the Committee reviewed the Bank's advertising campaign, communication plans and impact analyses. The Committee also reviewed business development strategies and projects in areas such as venture capital and subordinate financing, Aboriginal banking and electronic commerce.

Chairperson: Gregory Sorbara

Members: Leo E. Cholakis, Jennifer Corson, James A. Durrell, Terry B. Grieve

## > AUDIT COMMITTEE

The **Audit Committee** helps the Board fulfil its audit responsibilities. Financial reporting, corporate financing, treasury management, performance measurement, internal control systems and codes of conduct also fall within the committee's purview. In addition, the Committee helps the Board safeguard the Bank's assets and manage its resources. It met five times during the year to review the quarterly financial results and oversee the external auditors' involvement in the annual financial audit. It also reviewed the work of the internal audit and inspection team, and reviewed the financial statements in the Annual Report before the Board approved them.

Chairperson: Terry B. Grieve

Members: N. Murray Edwards, Roslyn Kunin, Oryssia Lennie, Cindy Sprague

## > RISK MANAGEMENT COMMITTEE

Risk is inherent in almost any business initiative, particularly lending, and the **Risk Management Committee** ensures that policies and systems are in place to manage risks associated with the Bank's activities. In fiscal 2000, it met three times to review risks involving the loan portfolio and treasury activities, and approved a revised liquidity policy. Committee members also spent a substantial amount of time and effort developing and approving business recovery plans related to Y2K and service interruptions.

Chairperson: Roslyn Kunin

Members: James A. Durrell, N. Murray Edwards, Roger Plamondon, Michel Vennat

## > PENSION FUND COMMITTEE

The **Pension Fund Committee** monitors the pension fund's activities, ensures that the fund is administered and financed in accordance with applicable legislation, and ensures that any changes to the plan reflect the Committee's terms of reference. In fiscal 2000, the Committee met four times to review the pension plan's actuarial assumptions and investment policy to ensure they reflected changing opportunities that could enhance the pension fund's financial performance and stability. Members reviewed results of the fund's investment managers and ensured that the Bank received excellent service from external suppliers administering the pension fund. In addition, the Committee reviewed the competitiveness of the plan's benefits. For the pension plan year ending December 31, 1999, the fund will report a continued surplus.

Chairperson: Leo E. Cholakis

Members: Clément Albert, Roslyn Kunin, Louise Piché, Roger Plamondon, Bernie Schroder, Michel Vennat

# BOARD OF DIRECTORS AND OFFICERS

(as at March 31, 2000)

## > DIRECTORS

**Leo E. Cholakis**
Managing Director
Kensington Building Ltd.
Winnipeg, Manitoba

**Jennifer Corson**
President
Renovators Resource Inc.
Halifax, Nova Scotia

**James A. Durrell**
General Manager
Williams Chevrolet Oldsmobile
Cadillac Limited
Hull, Quebec

**N. Murray Edwards**
President
Edco Financial Holdings Ltd.
Calgary, Alberta

**Terry B. Grieve**
Principal
Ventures West Management Inc.
Saskatoon, Saskatchewan

**Peter G. Jollymore**
Acting Dean of the Faculty
of Business
University of New Brunswick
Saint John, New Brunswick

**Roslyn Kunin**, Ph.D
President
Roslyn Kunin & Associates Inc.
Vancouver, British Columbia

**Oryssia Lennie**
Deputy Minister
Western Economic
Diversification Canada
Edmonton, Alberta

**Kevin G. Lynch**[1]
Deputy Minister
Industry Canada
Ottawa, Ontario

**Roger Plamondon**
Assistant Vice-President
Legal and Development
Costco Canada Inc.
Laval, Quebec

**Bernie Schroder**[2]
Acting President and
Chief Executive Officer
Business Development Bank
of Canada
Montreal, Quebec

**Gregory Sorbara**
Partner
The Sorbara Group
Vaughan, Ontario

**Cindy Sprague**
President and
Chief Executive Officer
OmniMark Technologies Inc.
Ottawa, Ontario

**Michel Vennat**, O.C., Q.C.
Chairman
Business Development Bank
of Canada
Partner
Stikeman Elliott
Montreal, Quebec

## > OFFICERS

**Bernie Schroder**[2]
Acting President and
Chief Executive Officer

**Luc Provencher**
Executive Vice-President
Corporate Finance and Risk
Management/Deputy CEO

**Clément Albert**
Vice-President and Treasurer

**André Bourdeau**
Senior Vice-President
Operations

**Jean Carle**
Senior Vice-President
Corporate Affairs

**Michel Desjardins**
Senior Vice-President
BDC Consulting Group

**Andrée LeBlanc Daviault**
General Counsel and
Corporate Secretary

**Jacques Lemoine**
Senior Vice-President
Credit

**Alan B. Marquis**
Senior Vice-President
Finance and
Chief Financial Officer

**Richard Morris**
Vice-President
Audit and Portfolio
Risk Management

**Michel Ré**
Senior Vice-President
Investments

[1] Replaced by Peter Harder,
Deputy Minister, Industry Canada.

[2] Replaced François Beaudoin
in September 1999.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## > OPERATING ENVIRONMENT

Once more, the Canadian economy outperformed early projections and exhibited solid growth in 1999 with posted expansion of 4.2 percent. This impressive performance can be attributed to strong export activity, a good investment climate, and continued improvements to the fiscal positions of the federal and provincial governments. The year also saw improved labour conditions with historically low unemployment rates. Most of the 281,000 jobs created were full-time and widespread across the public and private sectors, as well as self-employment. In summary, the Canadian economy is now running "at full speed".

In 1999, economic growth was spread out across the country with all provinces sharing in the millennium bounty. Increasing demand in Asia coupled with rising commodity prices, especially oil prices, have helped the economic recovery in Western Canada. Central provinces have continued to benefit from record export sales to the United States. And lastly, economic restructuring in Atlantic Canada is continuing at a very good pace and presents a positive outlook for the years to come.

Current predictions for the next two years indicate that the Canadian economy will remain on this positive track with projected growth of over 3 percent. This outlook is predicated again on the aforementioned factors with further strengthening of the consumer sector. However, optimistic predictions must be exercised with caution given that possible future inflationary pressures leading to higher U.S. and Canadian interest rates could slow down economic growth in the short- and medium-term.

In general, the pace of business creation in Canada is accelerating, particularly among small firms. Small businesses continue to be a major force in the Canadian economy, representing about 60 percent of the current employment growth in the country. There has also been significant growth in knowledge-based, high technology and export-oriented firms in Canada. The number of self-employed workers in the country has risen to over 2.5 million as more and more Canadians are choosing entrepreneurship as a viable career option.

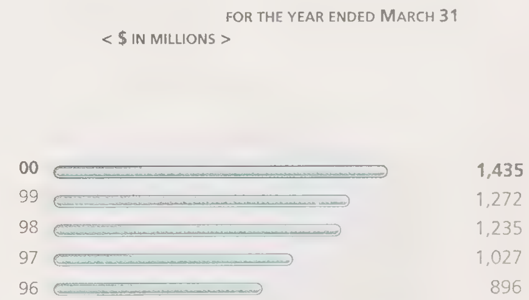
Like larger businesses, small firms require a stable economic environment in order to grow and compete. Economic conditions have been favourable to the business sector: the number of bankruptcies decreased by 7 percent in 1999 from a year ago. Strong economic conditions should continue to have positive effects on the business sector.

Structural changes are taking place with respect to the globalization of world economies. These changes are forcing nations to rethink their competitive abilities and reinforce strategies to improve productivity. Prosperity for the future will be directly linked to how well Canada can compete globally. Moreover, new technologies and the advent of e-commerce are introducing new ways to do business world-wide. As more and more small businesses get connected to the Internet, a greater proportion will conduct business on it.

BDC expects these factors will continue to increase the demand for its financial and consulting services, particularly since innovative solutions will enable small businesses to expand both at home and abroad.

## > FINANCIAL PERFORMANCE

The strong performance of the Canadian economy generated additional demands for the Bank's services in fiscal 2000, and total financing authorizations reached a record $1,435 million, including 6,350 new loans and Global Lines of Credit® for $1,372 million in lending, and $63 million in venture capital investments. The value of financing increased by 13 percent over last year, while the number of transactions increased by 5 percent.




In fiscal 2000, 10 percent of new lending went to knowledge-based industries (KBIs), and 34 percent to exporters, totalling 44 percent, a similar level to the previous year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED MARCH 31, 2000

| | Amount ($000) | (%) |
|---|---|---|
| KBIs | $ 135 | 10% |
| KBIs and exporters | 609 | 44% |
| Traditional | 763 | 56% |
| Total | $ 1,372 | 100% |

Consistent with the Bank's commitment to support entrepreneurship and focus on small businesses, 75 percent of BDC's lending activities were for loans of $250,000 or less, and including the Global Line of Credit®, 56 percent of activities were for amounts of $100,000 or less. As many of those loans are for start-up or very early stage businesses, they involve a higher risk profile with a higher expected default frequency.

Venture capital investments during the year comprised 62 deals for $63 million, compared to 47 investments for $42 million in fiscal 1999. The investment portfolio at March 2000 amounted to $145 million, compared to $110 million at March 1999.

During the year, a number of venture capital investments matured and consequently the Bank divested of certain of those shareholdings. Prevailing market conditions, particularly the dramatic increase in valuation of technology companies, earned significant returns for the Bank on two investments, which generated venture capital operating profits of $80.0 million for fiscal 2000, compared to a loss of $4.1 million in fiscal 1999.

FOR THE YEAR ENDED MARCH 31

< $ IN MILLIONS >


Those profits constitute most of the Bank's net income of $101.1 million for the year.

Customer demand for loan financing was steady, although there were some geographic disparities related to local economic conditions. Net loan authorizations for fiscal 2000 were $1,372 million, an increase of 12 percent over fiscal 1999, and 11 percent above the Corporate Plan. The proportion of higher risk loans continued to increase, and in line with current industry practice, the Bank increased the general allowance for credit losses resulting in a provision expense of $94 million, compared to $61 million in fiscal 1999. Consequently, the income earned by loans amounted to $25.3 million compared to $42.1 million a year ago.

BDC Consulting Group's performance continued to improve in fiscal 2000. Revenues reached $19.4 million, up 9 percent over last year while net operating losses decreased to $4.2 million from $5.2 million a year ago.

The Bank's consolidated net income reached a record $101.1 million for the year, exceeding both fiscal 1999 ($32.8 million) and Corporate Plan forecast ($35.6 million). Consequently, retained earnings net of dividends increased by $92.2 million. That build-up in the capital base will enable the Bank to further support the changing requirements of small business.

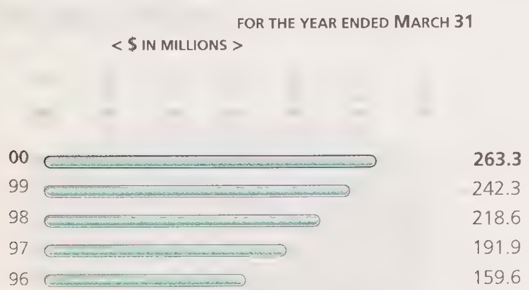
The Government of Canada invested $80 million in preferred shares in fiscal 2000 to support the growth in the Bank's portfolio in fiscal 2000 and 2001.

## > LOAN OPERATIONS

### Net Interest Income

Net interest income is a function of the size of the loan portfolio, and of the differential between the rate of interest charged to customers and the rate of interest on the Bank's cost of funds. In fiscal 2000, net interest income increased by 9 percent to $263 million, in line with the growth in the portfolio, while the net margin remained constant at 5.6 percent of the average loan portfolio.

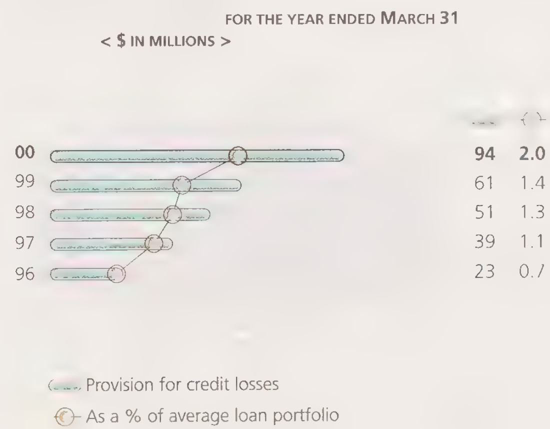
At March 2000, the loan portfolio stood at $4.9 billion, compared to $4.5 billion a year ago. Consistent with the Bank's commitment to the small business sector, with emphasis on KBIs and start-up operations, the overall risk profile of the portfolio continues to build up, and requires careful monitoring and attention by the Bank.




### Provision for Credit Losses

Added risk means that a greater proportion of loans will eventually become impaired and accordingly the Bank maintains a prudent level of allowance for credit losses. The increased risk required higher annual provision for credit losses, at 2.0 percent of the average portfolio compared with 1.4 percent in fiscal 1999. The charge of $94 million in fiscal 2000 includes an additional general provision of $15 million above Corporate Plan.

The allowance for credit losses, at $295 million, amounts to 6.0 percent of the portfolio.




### Operating and Administrative Expenses

Loan operating expenses at $144 million were in line with Corporate Plan in fiscal 2000, an increase of 3 percent over the previous year which had included most of the non-recurring costs related to year 2000. Further major information technology projects were postponed until after January 2000, and accordingly the related cost level in fiscal 2000 was reduced, but will increase in subsequent years.

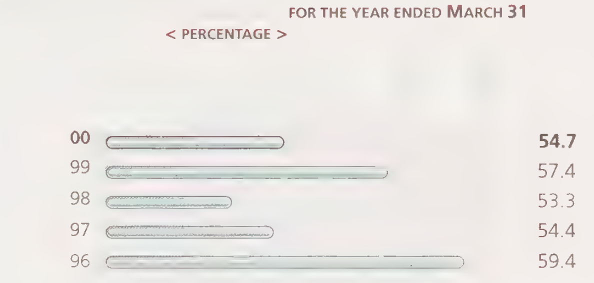
Productivity gains meant that average staffing levels were maintained at 1999 levels, with some additional staff being recruited to respond to customer demand in certain geographic areas. The Bank enhanced its comprehensive training program to increase employee competencies and provide quality customer service.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Additional funding was committed to the corporate communications campaign and further development of the Web site, to increase awareness of the Bank's role, operations and services, as well as to better serve the needs of Canadian small business entrepreneurs.

The productivity ratio improved as planned from 57 percent in fiscal 1999 to a more normal level of 55 percent in fiscal 2000. This ratio measures overall productivity by comparing operating expenses to net interest income, with a lower ratio indicating higher productivity. The Bank continues to strive for the right balance between its commercial objectives and its public policy initiatives.

The cost of information technology continues to rise as systems become increasingly complex and respond to an accelerating pace of change. During the development freeze in fiscal 2000, effort was focused on testing, quality assurance and the preparation of a three-year systems and architecture plan. While implementation of new systems has the potential to improve operating efficiencies, the Bank has a relatively small asset base over which to spread such investments, and it will face important challenges in selecting and implementing new information systems. The plan includes e-commerce, lending systems, customer relationship management, and risk management.




* Regular operating and administrative expenses to net interest income


## > VENTURE CAPITAL OPERATIONS

The investment portfolio continues to grow at a rapid pace – to $145 million from $32 million only four years ago*. The $80.0 million income earned in fiscal 2000 was generated by the divestiture of certain mature investments which benefited from the run-up in valuation of publicly-traded technology stocks. Consequently, if market conditions prevail, fiscal 2001 should be another strong year. At March 2000, unrealized gains are estimated at $134 million where the value of the Bank's investments exceeds book value, and where market conditions permit, the Bank has entered into derivative instruments to hedge that market risk. The proper timing to realize such gains is invariably subject to restrictions in shareholders' agreements.

Operating and administrative expenses of $19.5 million include the Bank's proportionate share of administrative expenses of the seed capital funds, and an accrual for an employee long-term incentive program which is based on the net realized gains on the sale of investments.

## > BDC CONSULTING GROUP OPERATIONS

Services provided to Canadian businesses, as measured by revenues, increased from $17.8 million last year to $19.4 million in fiscal 2000, and the net operating loss was reduced to $4.2 million. The cost recovery rate, including transformation costs, increased to 82 percent in fiscal 2000, compared to 77 percent in fiscal 1999, but less than the Corporate Plan objective of 86 percent, as the refocusing of consulting activities toward small business priorities was continued. Pursuant to the Bank's decision in September 1996 to fund consulting operations entirely from internal resources, no government appropriation has been provided since that time.

* Shares are held by persons subject to section 33 of the *Business Development Bank of Canada Act* in Toon Boon Technologies Inc., a $3.4 million investment.

## > OVERVIEW

The Bank has a well-established structure for managing risks arising from its activities. The Asset and Liability Committee (ALCO), which includes senior officers of the Bank, and the Bank's credit function, ensure that financial risks are responsibly managed to protect the Bank's assets. ALCO is also responsible for periodically reviewing the policies governing credit, market and liquidity risks related to the Bank's operations. These policies are approved by the Board of Directors.

The Board has also established a Risk Management Committee to monitor the Bank's various risk exposures and compliance with the Financial Risk Management Guidelines for Crown corporations, issued by the Minister of Finance.

The Bank's exposure to risks is composed of four major types: Credit Risk, Market Risk, Liquidity Risk, and Operational Risk.

| Types | Sources |
|---|---|
| **Credit Risk** | Lending activity, Liquidity investments, Hedging with derivative instruments |
| **Market Risk** | Movements in interest and foreign exchange rates |
| **Liquidity Risk** | Availability of funds in the financial markets |
| **Operational Risk** | Systems failure, Human Resources, Inadequate processes |

## > CREDIT RISK

### Risk Concentration // Loan Portfolio

The loan portfolio has grown at a compounded annual rate of 10 percent over the past five years and now amounts to $4.9 billion. That growth is matched by an increase in the number of loans outstanding, as the Bank continues to focus on the needs of small businesses, while also helping them expand into subsequent phases of business development. The loan portfolio is extensively diversified both geographically and by industry sector, reflecting the Bank's responsiveness to customer demand. Accordingly, there is no significant concentration of credit risk on either of these issues. However, given the focus on start-up and early stage investments, and the build-up in lending to KBIs, the proportion of higher risk loans is high and increasing.

As the Bank operates independently of any external guarantees or loss insurance, it assumes the entire risk on such transactions and ultimately will experience losses on a certain proportion of them. BDC Consulting Group helps manage that risk exposure by providing external expertise to improve the businesses' probability of success.

### Credit Quality // Loan Portfolio

Impaired loans are those for which, in the opinion of management, there is no reasonable likelihood of collecting the amount outstanding. Such loans amounted to $235 million at March 2000, compared to $251 million last year. A specific allowance for credit losses of $88 million has been established to cover the exposure on those loans. Because the portfolio comprises a large volume of small loans, it is not possible to attribute ratings of independent credit agencies.

Performing loans are regularly reviewed to reflect their current credit quality, and graded according to the Bank's own risk rating criteria. Loans rated high risk have increased to 24 percent of the value of the portfolio over the past two years, thus increasing the Bank's exposure to potential loss, and necessitating an increase in the provision for fiscal 2000.

General allowances are maintained to mitigate the ultimate exposure to loss from groups of performing loans, based on historical performance, modelling techniques, and judgement. The total general allowance at March 2000 was $207 million, $45 million higher than a year ago.

AS AT MARCH 31
< $ IN MILLIONS >

## Risk Concentration // Investments

The Bank has a very restrictive policy governing its investment activity. Short-term investments in deposits and money market instruments are contracted with top credit quality institutions for terms of less than one year. Longer term investments are permitted in securities issued or guaranteed by the Canadian or provincial governments, and by financial institutions that are members of the Canadian Payments Association. The risk of potential loss deriving from investment activity is very low considering that 89 percent of the investments have a term of less than one year as at March 31, 2000.

AS AT MARCH 31, 2000
< $ IN MILLIONS >

| Credit Rating* | Term to maturity: Less than 1 year | 1 to 3 years | 3 years and over |
|---|---|---|---|
| **AAA** | **16.3** | — | — |
| **AA– to AA+** | **424.7** | — | **63.8** |
| **A– to A+** | **80.9** | — | — |
| | **521.9** | — | **63.8** |

* From major credit agencies

## Derivative Instruments

With regard to derivative instruments, the potential loss resides in the creditworthiness of the counterparties. The credit risk exists only when these instruments have a positive fair value. The Bank monitors and manages the credit risk associated with the derivatives by applying a credit limit policy in all dealings in the derivatives market. Global contractual limits are established for each counterparty to off-balance sheet transactions and are reviewed periodically to ensure qualification of the counterparties to the Bank's standards which are fully in line with those issued by the Department of Finance to Crown corporations.

To limit its credit exposure the Bank enters into netting agreements with counterparties. The following table displays the exposure as at March 31, 2000 after giving effect to these agreements.

POSURE AS AT MARCH 31, 2000
< $ IN MILLIONS >

| Credit Rating* | Term to maturity: Less than 1 year | 1 to 3 years | 3 years and over |
|---|---|---|---|
| **AAA** | — | **30.4** | **3.4** |
| **AA– to AA+** | **1.2** | **16.5** | **136.2** |
| **A– to A+** | **6.5** | **1.7** | **0.6** |
| | **7.7** | **48.6** | **140.2** |

* From major credit agencies

## > MARKET RISK

Market risk is defined as the risk that a loss may result from a change in the value of a financial instrument. It includes exposure to interest rates, foreign exchange and equity prices.

### Foreign Exchange Risk

Foreign exchange risk is the exposure to potential adverse impact on net interest income due to movements in foreign exchange rates. The risk arises when borrowings are contracted in foreign currencies to fund assets in Canadian dollars.

The Bank fully hedges all of its foreign currency transactions with cross-currency swaps and foreign exchange forward contracts, thus eliminating any risk deriving from fluctuations in exchange rates.

### Interest Rate Risk

The Bank's loan portfolio of $4.9 billion is financed largely by borrowings of $4.5 billion on the open market, which inevitably creates an exposure to changing interest rates. That risk is managed by the Bank by closely matching the maturities of long-term notes, and the mix between short- and long-term notes, against the varying maturities of the Bank's loan portfolio. At March 31, 2000, 41 percent of the Bank's loan portfolio represented loans with fixed interest rates, compared to 49 percent in the previous year.

The Bank does not take funding positions nor speculate in any way, and hedges foreign currency exposure into Canadian dollars to mitigate that risk.

Although the Bank's borrowings are selected to match the maturity and the interest rate sensitivity of its assets, interest rate gaps may arise due to shifts in the loan portfolio with time. The chart below shows the interest rate gap position of the Bank as at March 31, 2000, after considering the effect of derivative instruments. The chart is not reflective of positions during subsequent periods.

AS AT MARCH 31, 2000
< $ IN MILLIONS >


| | Total assets | Total liabilities and shareholder's equity | Gap |
|---|---|---|---|
| Within 1 year | 3,949 | 3,818 | 131 |
| 1 to 3 years | 525 | 518 | 7 |
| Over 3 years | 714 | 385 | 329 |
| Non interest sensitive | 456 | 923 | (467) |

The Bank also uses risk measurement and analysis techniques when assessing the impact of funding strategies. These techniques include sensitivity analysis which measures the impact of interest rate changes on the Bank's current earnings and in the economic value of its assets and liabilities. The following table displays the impact on net interest income of a 1 percent increase in rates across the entire yield curve.

AS AT MARCH 31, 2000
< $ IN MILLIONS >

| | Within 1 year | 1 to 3 years | Over 3 years | Non interest sensitive | Total |
|---|---|---|---|---|---|
| Interest rate gap | **131** | **7** | **329** | **(467)** | **0** |
| Impact on net interest income | **0.6** | **(2.4)** | **(10.5)** | **5.5** | **(6.8)** |
| Impact as a % of net interest income | **0.2%** | **(0.9%)** | **(4.0%)** | **2.1%** | **(2.6%)** |

## > LIQUIDITY RISK

Liquidity risk is the risk that the Bank finds itself unable to raise funds at a reasonable cost under volatile market conditions to meet its cashflow obligations as they fall due.

The Bank manages liquidity to ensure availability of funds at all times. The ALCO has established a liquidity policy that requires close monitoring of operational cashflows and sets specific limits for day-to-day cash management. The policy also emphasizes on top quality security holdings readily marketable to meet short-term cash requirements. Diversification of sources of funds through international borrowing programs, is also a key cash management strategy that the Bank applies to maintain stability in the liquidity position.

AS AT MARCH 31
< $ IN MILLIONS >

| | Cash, short-term investments and securities | Total assets | Liquidity ratio (%) |
|---|---|---|---|
| 00 | **578** | **5,644** | **10** |
| 99 | 546 | 5,098 | 11 |
| 98 | 557 | 4,588 | 12 |
| 97 | 544 | 4,030 | 13 |
| 96 | 392 | 3,573 | 11 |

Cash, short-term investments and securities
Total assets
Liquidity ratio (%)

## > OPERATIONAL RISK

Operational risk is the potential for loss deriving from information systems failure, human error, breakdown of processes and any other risk not covered by market and credit risks. Among measures that the Bank takes to mitigate this risk, comprehensive policies and procedures have been established governing information process, lending operations, staff management and other key operational functions.

The risk associated with technology and telecommunication failures is managed through programs for replacement of computer systems and equipment, and through appropriate control procedures to ensure efficient information. The Bank has also a comprehensive business recovery planning process in place to ensure continuity in its key business functions in case of disaster.

In its approach to manage the risk associated with human resources, the Bank encourages performance in competency and favours development of employees' skills. The Bank has established a training and development program for the staff and introduced various incentives to encourage high performance.

The risk inherent to processes resides in incorrect reporting of information, incomplete transactions and ineffective functional routines. The Bank manages this risk by ensuring that principles of segregation of duties and clear delegation of authority are applied in the day-to-day operations.

## > BALANCE SHEET ANALYSIS

Sustained growth in the Bank's activities increased the net loans and investment portfolios to $4.7 billion, 9 percent higher than a year ago. Consequently, the Bank's total assets increased to $5.6 billion, compared to $5.1 billion at March 1999.

Loans outstanding, venture capital investments, cash and short-term assets at March 2000 aggregating $5.3 billion, which comprise the Bank's principal assets, were funded by borrowings of $4.5 billion and shareholder's equity of $0.8 billion. The net portfolio growth of $394 million during fiscal 2000 was funded by borrowings of $259 million, and by $80 million contributed by the Government of Canada for preferred shares, in addition to the growth in retained earnings.

### Capital Adequacy

Guidelines have been established by Treasury Board which governs the Bank's ratio between debt and equity according to various categories of financing:

| | |
|---|---|
| Commercial Lending | 10:1 |
| Subordinate Financing | 4:1 |
| Venture Capital | 1:1 |

During Fiscal 2000, the Government of Canada contributed an additional share capital of $80 million to maintain those ratios and to support growth in the Bank's portfolio.

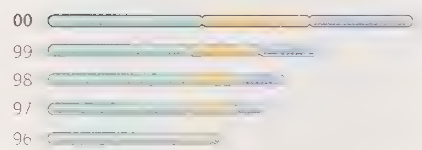
### Shareholder's Equity

Retained earnings increased by $92 million to the level of $223 million, and preferred share capital grew by $80 million during fiscal 2000. In addition, contributed surplus of $28 million was created by the transfer of the CIDF loan portfolio to BDC with an equivalent net value. Total shareholder's equity at year-end was $784 million compared to $584 million last year, which by increasing the capital base will enable the Bank to increase its support for the growing needs of small businesses. For the fourth consecutive year, BDC has declared a dividend. The amount of the dividend for fiscal 2000 is $8.9 million, on its preferred shares payable to the Government of Canada.

The Bank operated within all statutory limits for the year ended March 31, 2000. At year-end, the debt-to-equity ratio was 5.7:1.

Net income of $101.1 million provided a return on average common shareholder's equity of 18.7 percent, an improvement over fiscal 1999 due to the strong performance in venture capital activities.

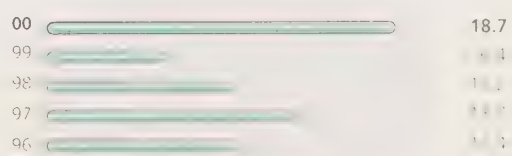
AS AT MARCH 31
< $ IN MILLIONS >




| | Common shares | Preferred shares | Retained earnings | Total shareholder's equity |
|---|---|---|---|---|
| **00** | **331.2*** | **230.0** | **222.6** | **783.8** |
| 99 | 303.4 | 150.0 | 130.4 | 583.8 |
| 98 | 303.4 | 100.0 | 103.7 | 507.1 |
| 97 | 303.4 | 100.0 | 64.2 | 467.6 |
| 96 | 303.4 | 50.0 | 16.9 | 370.3 |

* Includes a $27.8 million contributed surplus

FOR THE YEAR ENDED MARCH 31
< PERCENTAGE >



The financial statements of the Business Development Bank of Canada were prepared and presented by management in accordance with generally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includes amounts requiring estimation which have been made based upon informed judgement as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the financial statements.

In discharging its responsibility for the integrity, fairness and quality of the financial statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Audit and Inspection and the independent auditors have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of Directors who are not employees of the Bank, is responsible for reviewing and approving the audited annual financial statements.

The Bank's independent auditors, KPMG LLP, Chartered Accountants and the Auditor General of Canada have audited the Bank's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

> Bernie Schroder
> Acting President and
> Chief Executive Officer

> Alan B. Marquis
> Senior Vice-President, Finance
> and Chief Financial Officer

Montreal, Canada
May 26, 2000

To the Minister of Industry:

We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 2000 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

> KPMG LLP
Chartered Accountants

Montreal, Canada
May 26, 2000

> L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 26, 2000

| as at March 31 ($ in thousands) | 2000 | 1999 |
|---|---|---|
| **ASSETS** | | |
| Cash and short-term investments (Note 3) | **$ 493,903** | $ 458,182 |
| Securities (Note 4) | **83,752** | 87,889 |
| | **577,655** | 546,071 |
| Loans, net of allowance for credit losses (Notes 5 and 6) | **4,608,188** | 4,248,745 |
| Venture capital investments (Note 7) | **145,107** | 110,298 |
| | **4,753,295** | 4,359,043 |
| Capital assets, net of accumulated amortization | **39,879** | 39,244 |
| Other assets (Note 8) | **273,330** | 154,103 |
| | **313,209** | 193,347 |
| **TOTAL ASSETS** | **$ 5,644,159** | $ 5,098,461 |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | |
| Accounts payable and accrued liabilities | **$ 45,045** | $ 43,080 |
| Accrued interest on borrowings | **240,697** | 142,879 |
| | **285,742** | 185,959 |
| Borrowings (Note 9) | | |
| Short-term notes | **1,965,781** | 2,235,687 |
| Long-term notes | **2,516,964** | 1,987,669 |
| | **4,482,745** | 4,223,356 |
| Other liabilities (Note 10) | **91,846** | 105,314 |
| **SHAREHOLDER'S EQUITY** | | |
| Share capital (Note 11) | **533,400** | 453,400 |
| Contributed Surplus (Note 18) | **27,778** | |
| Retained earnings | **222,648** | 130,432 |
| | **783,826** | 583,832 |
| **TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY** | **$ 5,644,159** | $ 5,098,461 |

*The accompanying Notes to Financial Statements are an integral part of this statement.*

Approved by the Board:

> Terry B. Grieve,
  Director
> Bernie Schroder,
  Director

| for the year ended March 31 ($ in thousands) | **2000** | 1999 |
|---|---|---|
| **FINANCIAL SERVICES** | | |
| **Loans** | | |
| Interest income | **$ 453,461** | $ 420,862 |
| Interest expense (Note 12) | **190,103** | 178,521 |
| Net interest income | **263,358** | 242,341 |
| Provision for credit losses (Note 6) | **94,000** | 61,019 |
| Net interest income after provision for credit losses | **169,358** | 181,322 |
| Operating and administrative expenses (Note 13) | **144,038** | 139,198 |
| Income from Loans | **25,320** | 42,124 |
| **Venture Capital** | | |
| Interest and dividends | **539** | 2,293 |
| Realized gains on investments | **112,708** | 6,009 |
| Other | **1,053** | 825 |
| Investment income | **114,300** | 9,127 |
| Write-down of investments | **14,720** | 7,493 |
| Net investment income | **99,580** | 1,634 |
| Operating and administrative expenses (Note 13) | **19,541** | 5,758 |
| Income (Loss) from Venture Capital | **80,039** | (4,124) |
| **INCOME FROM FINANCIAL SERVICES** | **105,359** | 38,000 |
| **CONSULTING GROUP** | | |
| Revenue | **19,396** | 17,823 |
| Operating and administrative expenses (Note 13) | **23,650** | 23,039 |
| **LOSS FROM CONSULTING GROUP** | **(4,254)** | (5,216) |
| **NET INCOME** | **101,105** | 32,784 |
| **RETAINED EARNINGS** | | |
| Beginning of year | **130,432** | 103,658 |
| Dividend on preferred shares | **(8,889)** | (6,010) |
| **End of year** | **$ 222,648** | $ 130,432 |

*The accompanying Notes to Financial Statements are an integral part of this statement.*

| for the year ended March 31 ($ in thousands) | 2000 | 1999 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | **$ 101,105** | $ 32,784 |
| Adjustments to determine net cash flows: | | |
| Provision for credit losses and write-down of venture capital investments | **108,720** | 68,512 |
| Amortization of capital assets | **11,865** | 10,288 |
| Change in interest receivable on loans | **895** | (3,594) |
| Change in accrued interest on borrowings | **(13,668)** | 13,449 |
| Translation adjustment on debt and securities | **33,129** | 1,960 |
| Net increase in unrealized gains and amounts receivable on derivative financial instruments | **(122,239)** | (55,142) |
| Net increase in unrealized losses and amounts payable on derivative financial instruments | **101,445** | 37,061 |
| Net change in other assets and other liabilities | **1,551** | (4,545) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | **222,803** | 100,773 |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | |
| Disbursements for loans and venture capital investments | **(1,516,894)** | (1,264,773) |
| Repayments of loans and venture capital investments | **1,023,171** | 749,163 |
| Net acquisition of capital assets | **(12,500)** | (23,078) |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(506,223)** | (538,688) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Issue of long-term notes | **1,040,462** | 1,207,001 |
| Repayment of long-term notes | **(531,728)** | (601,343) |
| Net change in short-term notes | **(281,402)** | (222,031) |
| Net change in securities | **3,064** | (30,519) |
| Proceeds from issue of preferred shares | **80,000** | 50,000 |
| Contributed cash on transfer of Cultural Industries Development Fund | **17,634** | |
| Dividend on preferred shares | **(8,889)** | (6,010) |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | **319,141** | 397,098 |
| **NET INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS** | **35,721** | (40,817) |
| **CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR** | **458,182** | 498,999 |
| **CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR** | **$ 493,903** | $ 458,182 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Amount of interest paid in the year | **$ 203,771** | $ 165,072 |

*The accompanying Notes to Financial Statements are an integral part of this statement.*

## 1. ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

The Business Development Bank of Canada (BDC) is a Crown corporation which was established by an Act of Parliament on December 20, 1974 as the Federal Business Development Bank, and continued under its current name by an Act of Parliament on July 13, 1995. The Bank is wholly owned by the Government of Canada and is exempt from income taxes.

The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and consulting services complementary to those of commercial financial institutions. The Bank offers to Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further the Bank's activities.

To finance these objectives, the Bank issues debt instruments which are secured by the Government of Canada. The *Business Development Bank of Canada Act* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ from those estimates. Significant estimates include allowances for losses on loans and consideration of write-downs in venture capital investments. A variation in the circumstances or economic conditions under which these estimates are made could result in a significant change in these management judgements. The significant accounting policies used in the preparation of these financial statements are summarized below.

### Securities

Debt securities are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are netted against interest expense.

### Loans

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired.

Loans are classified as impaired when there is a deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, as explained under *Allowance for credit losses*, the increase in present value attributable to the passage of time is recorded as interest income.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Allowance for credit losses

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the Bank's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the balance sheet date. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries.

The allowance for credit losses is comprised of specific and general allowances.

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent in the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances as well as subsequent changes thereto are recorded through the provision for credit losses as an adjustment to the specific allowance.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

### Venture capital investments

Venture capital investments are recorded at cost. Investments in seed funds over which the Bank has joint control, are accounted for using the proportionate consolidation method. When there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss.

Interest and dividends are included in income when received whereas gains on investments are included when realized.

### Capital assets and amortization

Capital assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

| | |
|---|---|
| • Computer equipment and software | 3-7 years |
| • Furniture and fixtures | 5 years |
| • Leasehold improvements | over the term of the lease, maximum 15 years |

### Premiums, discounts and debt issue expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

### Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year.

### Derivative financial instruments

The Bank enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. These financial instruments are used as hedges for the sole purpose of matching assets and liabilities. These derivatives are accounted for on an accrual basis with the related revenue or expense recognized over the life of the hedged position as an adjustment to interest expense.

Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

### Pension plans and other benefits

The Bank maintains defined benefit pension plans for eligible employees. Periodic valuations are performed by independent actuaries to determine the present value of the accrued pension benefits using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, earnings escalation and retirement ages of employees.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The net pension expense or credits are comprised of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on pension liabilities, expected income on plan assets based on an average of market-related values, and the amortization over the expected average remaining service life of the employees of experience gains or losses in respect of the plan, and any adjustments arising from changes to the plan or the plan assumptions.

The Bank also provides life insurance and health care benefits for eligible retirees as well as other employee and retiree benefits which are accrued based on actuarial valuations.

### Future accounting changes

The Canadian Institute of Chartered Accountants has issued a new standard, Employee Future Benefits, for recording and disclosing pension and other future employee benefits which the Bank will fully adopt in 2001. The most significant change for the Bank will be the adoption of a current market rate of return rather than management's best estimate of the long-term discount rate for the evaluation of future employee obligations. The overall impact to the Bank will be dependent upon the interest rate environment at the time and upon the accounting option chosen for implementation.

## 3. CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments comprise bank account balances, net of cheques outstanding, and short-term bank deposits for terms less than 90 days.

## 4. SECURITIES

| | Term to maturity | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year | 1 to 3 years | Over 3 years | | **2000 Total** | 1999 Total |
| **Canada** | | | | | | |
| Carrying value | $ 20,790 | $ 23,533 | | | **$ 44,323** | $ 62,090 |
| Yield | 6.74% | 7.14% | | | **6.96%** | 6.61% |
| Fair value | $ 20,997 | $ 24,200 | | | **$ 45,197** | $ 63,606 |
| **Provinces** | | | | | | |
| Carrying value | | | | | | 25,799 |
| Yield | | | | | | 9.13% |
| Fair value | | | | | | 27,467 |
| **Financial Institutions** | | | | | | |
| Carrying value | | | $ 39,429 | | **39,429** | |
| Yield | | | 6.32% | | **6.32%** | |
| Fair value | | | $ 39,471 | | **39,471** | |
| **Total** | | | | | | |
| Carrying value | $ 20,790 | $ 23,533 | $ 39,429 | | **$ 83,752** | $ 87,889 |
| Yield | 6.74% | 7.14% | 6.32% | | **6.66%** | 7.35% |
| Fair value | $ 20,997 | $ 24,200 | $ 39,471 | | **$ 84,668** | $ 91,073 |
| **Swap Contracts** | | | | | | |
| Notional amount | $ 21,230 | $ 24,950 | $ 40,000 | | **$ 86,180** | $ 88,222 |
| Adjusted yield (1) | 5.35% | 5.27% | 5.44% | | **5.37%** | 5.15% |
| Amounts denominated in foreign currencies included in the carrying value of securities | | | | | | |
| *US dollars* | | | | 20,494 | | |
| *GB pounds* | | | | 2,000 | | |
| | | | | | | $ 35,797 |
| *US dollars* | | | | 36,964 | | |
| *GB pounds* | | | | 2,000 | | |
| | | | | | **$ 58,093** | |

*(1) After adjusting for the effect of related derivatives (see note 15).*

4. **SECURITIES (continued)**

All securities held as at March 31 were issued by Canadian entities at fixed rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, the Bank has entered into cross-currency interest rate and interest rate swaps to adjust the interest rate and the foreign exchange risks associated with the above securities.

5. **LOANS**

The following table summarizes the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31. The effective interest rates are computed on a weighted average basis.

| | **2000** | | 1999 | |
|---|---|---|---|---|
| Performing – floating | **$ 2,736,660** | **9.76%** | $ 2,161,037 | 9.51% |
| Performing – fixed | | | | |
| Under one year | **454,423** | **9.78%** | 455,311 | 9.34% |
| 1 to 2 years | **267,299** | **9.47%** | 306,578 | 9.84% |
| 2 to 3 years | **209,024** | **9.20%** | 282,731 | 9.53% |
| 3 to 4 years | **394,291** | **9.37%** | 217,639 | 9.28% |
| 4 to 5 years | **163,885** | **9.62%** | 391,138 | 9.35% |
| Over 5 years | **442,275** | **8.89%** | 435,919 | 9.01% |
| Performing | **4,667,857** | | 4,250,353 | |
| Impaired | **235,135** | | 250,840 | |
| Total loans | **4,902,992** | | 4,501,193 | |
| Allowance for credit losses | | | | |
| General | **(206,739)** | | (161,970) | |
| Specific | **(88,065)** | | (90,478) | |
| | **(294,804)** | | (252,448) | |
| Loans, net of allowance for credit losses | **$ 4,608,188** | | $ 4,248,745 | |

The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The Bank believes it does not have any significant concentrations in any individual or related group of clients.

| **Geographic Distribution** | **2000** | | 1999 | |
|---|---|---|---|---|
| Newfoundland | **$ 164,000** | **3.3%** | $ 147,846 | 3.3% |
| Prince Edward Island | **43,840** | **0.9%** | 38,614 | 0.9% |
| Nova Scotia | **105,974** | **2.1%** | 100,631 | 2.2% |
| New Brunswick | **182,547** | **3.7%** | 161,798 | 3.6% |
| Quebec | **2,024,962** | **41.3%** | 1,794,570 | 39.9% |
| Ontario | **1,297,346** | **26.5%** | 1,164,056 | 25.9% |
| Manitoba | **94,612** | **1.9%** | 97,183 | 2.1% |
| Saskatchewan | **100,678** | **2.1%** | 98,553 | 2.1% |
| Alberta | **272,127** | **5.6%** | 256,352 | 5.7% |
| British Columbia | **562,403** | **11.5%** | 578,947 | 12.9% |
| Yukon | **27,603** | **0.6%** | 32,003 | 0.7% |
| Northwest Territories and Nunavut | **26,900** | **0.5%** | 30,640 | 0.7% |
| Total loans outstanding | **$ 4,902,992** | **100.0%** | $ 4,501,193 | 100.0% |

6. **ALLOWANCE FOR CREDIT LOSSES**

The following table summarizes the changes in the allowance for credit losses as at March 31.

| | 2000 | 1999 |
|---|---|---|
| Balance at beginning of year | **$ 252,448** | $ 234,049 |
| Write-offs | **(50,704)** | (41,013) |
| Interest income due to accretion | **(2,918)** | (4,613) |
| Recoveries | **1,978** | 3,006 |
| | **200,804** | 191,429 |
| Provision for credit losses | **94,000** | 61,019 |
| Balance at end of year | **$ 294,804** | $ 252,448 |

For 2000, the Bank determined that the application of its current methodology for determining the general allowance for credit losses did not fully consider general economic and business conditions, as well as trends in the credit quality of the loan portfolio. Consequently, the general allowance at March 31, 2000 includes an additional amount of $50,000 (1999 – nil) to reflect the limitations of the current methodology. The methodology will be refined in 2001 to address these issues.

7. **VENTURE CAPITAL INVESTMENTS**

The Bank maintains a portfolio of venture capital investments which is focused on companies having promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The Bank believes it does not have any significant concentrations in any individual client.

| **Industry Sector** | 2000 | 1999 |
|---|---|---|
| Biotechnology/Medical/Health | **$ 48,140** | $ 35,176 |
| Computer | **27,469** | 31,540 |
| Venture Capital Seed Funds | **20,231** | 12,928 |
| Venture Capital Funds | **2,104** | 2,340 |
| Electronics | **18,519** | 12,819 |
| Communications | **16,704** | 5,977 |
| Industrial | **4,663** | 2,841 |
| Consumer-related | **2,538** | 2,538 |
| Other | **4,739** | 4,139 |
| Venture capital investments | **$ 145,107** | $ 110,298 |

Investments are generally held 4 to 7 years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investment yields vary from year to year due to the amount and timing of dividend and interest income received and divestitures made. Below is a summary of the venture capital portfolio by type of investment.

| | 2000 | 1999 |
|---|---|---|
| Common shares | **$ 79,265** | $ 60,902 |
| Preferred shares | **51,213** | 38,082 |
| Debentures | **14,629** | 11,314 |
| Venture capital investments | **$ 145,107** | $ 110,298 |

## 7. VENTURE CAPITAL INVESTMENTS (continued)

The Bank has invested in $T^2C^2$ Bio, $T^2C^2$ Info, Western Technology and Eastern Technology seed funds over which it has joint control. Below is a summary of the Bank's proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

| | |
|---|---|
| Current assets | **$ 3,220** |
| Venture capital investments | **13,454** |
| Other assets | **26** |
| Current liabilities | **23** |
| Investment income | **346** |
| Operating and administrative expenses | **4,291** |
| Net loss | **3,945** |
| Cash flows from (used in): | |
| Operating activities | **(3,471)** |
| Investing activities | **(13,955)** |
| Financing activities | **20,533** |

## 8. OTHER ASSETS

| | 2000 | 1999 |
|---|---|---|
| Accrued interest and foreign currency adjustments on derivative financial instruments | **$ 265,818** | $ 143,579 |
| Unamortized debt issue expenses on long-term notes | **3,738** | 3,673 |
| Other | **3,774** | 6,851 |
| | **$ 273,330** | $ 154,103 |

## 9. BORROWINGS

The Bank issues debt instruments in world capital markets to fund its loan portfolio. All foreign exchange risk is hedged through the use of derivatives. In addition, where appropriate, the Bank enters into interest rate, cross-currency interest rate and equity-linked swap contracts to hedge the related interest rate and equity market risks. The table below shows the outstanding notes as at March 31.

| Maturity date | Effective rate | Currency | Nominal amount ('000) | 2000 | 1999 |
|---|---|---|---|---|---|
| **Short-term notes** | | | | | |
| 2000 | 4.58% – 5.23% | US dollars | 726,800 | | |
| | | GB pounds | 5,000 | | |
| | | HK dollars | 261,000 | | |
| | | CDN dollars | 951,024 | | |
| | | Ecu | 7,000 | | |
| | | Euro | 83,000 | | $ 2,235,687 |
| 2001 | 4.74% – 5.53% | US dollars | 386,000 | | |
| | | CDN dollars | 1,422,750 | **$ 1,965,781** | |
| **Total short-term notes** | | | | **$ 1,965,781** | $ 2,235,687 |

9. BORROWINGS (continued)

| Maturity date | Effective rate* | Currency | Principal amount ('000) | 2000 | 1999 |
|---|---|---|---|---|---|
| **Long-term notes** | | | | | |
| 2000 | 4.44% – 7.10% | US dollars | 121,000 | | |
| | | CDN dollars | 105,245 | | $ 281,852 |
| 2001 | 4.72% – 7.43% | US dollars | 15,449 | | |
| | | Yen | 701,390 | | |
| | | CDN dollars | 327,500 | **$ 363,096** | 230,149 |
| 2002 | 4.95% – 5.29% | US dollars | 143,500 | | |
| | 5.01% | Yen | 2,000,000 | | |
| | 4.95% – 5.21% | CDN dollars | 171,715 | **409,315** | 389,832 |
| 2003 | 4.93% – 6.25% | CDN dollars | | **168,500** | 158,500 |
| 2004 | 4.95% – 5.37% | CDN dollars | | **233,500** | 233,500 |
| 2005 | 4.88% | US dollars | 10,000 | | |
| | 5.37% | Yen | 500,000 | | |
| | 5.04% – 5.13% | CDN dollars | 75,000 | **96,363** | 50,000 |
| 2006 | 4.96% – 5.65% | CDN dollars | | **190,400** | 248,400 |
| 2007 | 4.92% – 5.05% | Yen | 1,700,000 | | |
| | 4.93% – 5.15% | CDN dollars | 153,195 | **176,574** | 177,486 |
| 2008 | 4.96% – 5.06% | CDN dollars | | **92,000** | 88,000 |
| 2009 | 5.01% – 5.10% | CDN dollars | | **70,950** | 64,950 |
| 2010 | 4.96% | US dollars | 15,000 | | |
| | 4.92% – 5.20% | Yen | 11,500,000 | | |
| | 4.92% – 5.13% | CDN dollars | 38,000 | **217,692** | |
| 2011 | 4.64% – 5.16% | CDN dollars | | **65,000** | 65,000 |
| 2012 | 4.88% – 5.25% | Yen | 10,300,000 | | |
| | 4.99% – 5.14% | CDN dollars | 43,000 | **184,652** | |
| 2015 | 4.85% – 5.08% | Yen | 18,100,000 | **248,922** | |
| **Total long-term notes** | | | | **$ 2,516,964** | $ 1,987,669 |
| Current portion of long-term notes with maturity date longer than a year | | | | — | $ 6,501 |

* *The effective rates on long-term notes are after giving effect to swap contracts when applicable. Information as to the repricing dates of the interest rate swap contracts is included in Note 15.*

## 9. BORROWINGS (continued)

The preceding table includes $1,876,964 in 2000 and $1,347,424 in 1999 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio.

The Bank has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Other notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by the Bank or the noteholders. The type of notes included in the above table are as follows:

| | 2000 | 1999 |
|---|---|---|
| Interest-bearing notes | **$ 822,110** | $ 1,013,041 |
| Notes linked to equity indices | **325,353** | 289,557 |
| Notes linked to currency rates | **408,453** | — |
| Notes linked to swap rates | **195,852** | 85,680 |
| Notes callable prior to maturity | **355,565** | 315,195 |
| Notes extendible beyond maturity | **163,000** | 153,000 |
| Other structured notes | **246,631** | 131,196 |
| | **$ 2,516,964** | $ 1,987,669 |

As at March 31, 2000 the payment requirements and maturities of long-term notes are as follows:

| | |
|---|---|
| 2001 | **$ 363,096** |
| 2002 | **409,315** |
| 2003 | **168,500** |
| 2004 | **233,500** |
| 2005 | **96,363** |
| 2006 and over | **1,246,190** |
| | **$ 2,516,964** |

## 10. OTHER LIABILITIES

| | 2000 | 1999 |
|---|---|---|
| Deferred income | **$ 2,362** | $ 3,170 |
| Accrued pension and other benefits | **50,375** | 54,791 |
| Unamortized premiums, accrued interest and foreign currency adjustments on derivative financial instruments | **15,913** | 25,954 |
| Other | **23,196** | 21,399 |
| | **$ 91,846** | $ 105,314 |

## 11. SHARE CAPITAL AND STATUTORY LIMITATIONS

**Share Capital**

Authorized:

(a) An unlimited number of preferred shares without par value, non-voting, issuable in series;

(b) An unlimited number of common shares, having a par value of $100 (one hundred dollars) each.

| **Outstanding** | | **2000** | | | 1999 | |
|---|---|---|---|---|---|---|
| | **Number of shares** | **Amount** | **Dividend rate** | Number of shares | Amount | Dividend rate |
| Preferred shares | | | | | | |
| Class A – Series 1 | **500,000** | **$ 50,000** | **5.595%** | 500,000 | $ 50,000 | 6.805% |
| – Series 2 | **500,000** | **50,000** | **5.215%** | 500,000 | 50,000 | 5.215% |
| – Series 3 | **500,000** | **50,000** | **5.515%** | 500,000 | 50,000 | 5.515% |
| – Series 4 | **400,000** | **40,000** | **6.270%** | | | |
| – Series 5 | **400,000** | **40,000** | **6.270%** | | | |
| | | **230,000** | | | 150,000 | |
| Common shares | **3,034,000** | **303,400** | | 3,034,000 | 303,400 | |
| **Total Outstanding Share Capital** | | **$ 533,400** | | | $ 453,400 | |

*Class A Preferred Shares* have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day. The dividend rates on Class A Preferred shares are for periods ranging from two to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.250% to 0.375%.

During the year ended March 31, 2000, the Bank issued 400,000 Class A – Series 4 and 400,000 Class A – Series 5 preferred shares for cash consideration of $80,000.

**Statutory Limitations**

The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the equity of the Bank.

Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity, must not at any time exceed $1.5 billion.

## 12. INTEREST EXPENSE

| | **2000** | 1999 |
|---|---|---|
| Interest on borrowings | **$ 217,704** | $ 207,499 |
| Security and short-term investment income | **(27,601)** | (28,978) |
| | **$ 190,103** | $ 178,521 |

## 13. OPERATING AND ADMINISTRATIVE EXPENSES

| | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| | **Financial Services** | | **Consulting Group** | Financial Services | | Consulting Group |
| | **Loans** | **Venture Capital** | | Loans | Venture Capital | |
| Salaries and staff benefits | **$ 68,811** | **$ 11,438** | **$ 16,111** | $ 66,354 | $ 3,386 | $ 15,582 |
| Premises and equipment | **23,723** | **1,015** | **2,496** | 22,194 | 920 | 2,433 |
| Other expenses | **51,504** | **7,088** | **5,043** | 50,650 | 1,452 | 5,024 |
| | **$ 144,038** | **$ 19,541** | **$ 23,650** | $ 139,198 | $ 5,758 | $ 23,039 |

## 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties, however many of the financial instruments lack an available trading market. Therefore, fair values are estimated using present value and other valuation techniques which are extensively affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

The carrying values are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

| | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| | **Carrying value** | **Fair value** | **Fair value over (under) carrying value** | Carrying value | Fair value | Fair value over (under) carrying value |
| **Balance Sheet** | | | | | | |
| **Assets** | | | | | | |
| Cash and short-term investments | **$ 493,903** | **$ 493,903** | **$** | $ 458,182 | $ 458,182 | $ |
| Securities (Note 4) | **83,752** | **84,668** | **916** | 87,889 | 91,073 | 3,184 |
| Loans net of allowance for credit losses | **4,608,188** | **4,572,992** | **(35,196)** | 4,248,745 | 4,247,282 | (1,463) |
| Venture capital investments | **145,107** | **278,743** | **133,636** | 110,298 | 158,842 | 48,544 |
| Other assets | **3,774** | **3,774** | **—** | 6,851 | 6,851 | — |
| | **$ 5,334,724** | **$ 5,434,080** | **$ 99,356** | $ 4,911,965 | $ 4,962,230 | $ 50,265 |
| **Liabilities** | | | | | | |
| Accounts payable and accrued liabilities | **$ 45,045** | **$ 45,045** | **$** | $ 43,080 | $ 43,080 | $ |
| Accrued interest on borrowings | **240,697** | **240,697** | | 142,879 | 142,879 | |
| Short-term notes | **1,965,781** | **1,965,781** | | 2,235,687 | 2,235,687 | |
| Long-term notes | **2,516,964** | **2,615,440** | **98,476** | 1,987,669 | 2,118,062 | 130,393 |
| | **$ 4,768,487** | **$ 4,866,963** | **$ 98,476** | $ 4,409,315 | $ 4,539,708 | $ 130,393 |
| | | | **$ 880** | | | $ (80,128) |
| **Derivative financial instruments** (Note 15) | **$ 187,098** | **$ 184,619** | **$ (2,479)** | $ 41,547 | $ 117,369 | $ 75,822 |
| **Total** | | | **$ (1,599)** | | | $ (4,306) |

**14. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

Fair values are based on a range of valuation methods and assumptions which are as follows:

*Financial instruments valued at carrying value* – The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and short-term investments
- Other assets
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

*Securities* – The fair value of securities is provided in Note 4 to the financial statements.

*Loans* – For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *Allowance for credit losses.*

*Venture capital investments* – For venture capital investments made during the current year, estimated fair value is assumed to equal the carrying value. For investments in publicly traded companies, fair value is the quoted share price at March 31. The fair value of other investments is estimated using established earnings multiples.

*Long-term notes* – The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

*Derivative financial instruments* – The fair value of derivative financial instruments is provided in Note 15 to the financial statements.

**15. DERIVATIVE FINANCIAL INSTRUMENTS**

The Bank enters into derivative financial instruments as hedging transactions for the sole purpose of matching its assets and liabilities and hedging market risk exposure. These transactions are designed to reduce the Bank's exposure to mismatches in revenue and expenses resulting from fluctuations in interest rates and foreign exchange.

Depending on the circumstances, these transactions may include the following:

**Swaps**

Swaps involve the exchange of cash flow obligations on a specific notional amount, for a predetermined period. *Interest rate swaps* involve exchange of fixed and floating interest payments. *Currency swaps* involve exchange of currencies at specific prices and dates. *Cross-currency interest rate swaps* involve the exchange of both interest and notional amounts in two different currencies. For *equity-linked swaps*, one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates.

**Forwards and Futures**

*Forwards and futures* are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future.

## 15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### Options

*Options* are agreements in which the writer (or the seller) of the option grants the buyer the right, but not the obligation, to buy or sell a specific amount of a currency, commodity or financial instrument at a price agreed upon when the options are arranged. The writer receives a premium for selling this instrument.

The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by unrealized gains or losses.

| | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| | **Positive** | **Negative** | **Net Amount** | Positive | Negative | Net Amount |
| **Derivative financial instruments** | | | | | | |
| Interest rate swap contracts | **$ 6,896** | **$ 20,319** | **$ (13,423)** | $ 42,397 | $ 10,026 | $ 32,371 |
| Equity-linked swap contracts | **131,350** | **1,776** | **129,574** | 38,296 | 15,801 | 22,495 |
| Forward rate agreements | — | — | — | 225 | — | 225 |
| Cross-currency interest rate swap contracts | **100,162** | **25,241** | **74,921** | 74,627 | 1,601 | 73,026 |
| **Foreign exchange contracts** | | | | | | |
| Currency forward contracts | **985** | **2,976** | **(1,991)** | 2,849 | 13,597 | (10,748) |
| **Option contracts** | — | **4,462** | **(4,462)** | — | — | — |
| **Total fair value** | **$ 239,393** | **$ 54,774** | **$ 184,619** | $ 158,394 | $ 41,025 | $ 117,369 |
| Less impact of master netting agreements | **42,858** | **42,858** | — | 17,643 | 17,643 | — |
| **Total** | **$ 196,535** | **$ 11,916** | **$ 184,619** | $ 140,751 | $ 23,382 | $ 117,369 |

The fair value of derivatives is determined using various methodologies including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methodologies as appropriate.

### Credit risk

The notional amounts of financial instruments held by the Bank are not indicative of the credit or market risk exposure associated with the contracts. The risk of loss is related only to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the positive fair values of transactions that are in an unrealized gain position. The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution. The Bank continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. The Bank's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

| **Counterparty Credit Risk Exposure** | **Counterparty Ratings** | | | |
|---|---|---|---|---|
| | **AAA** | **AA- to AA+** | **A to A+** | **Total** |
| **Gross positive replacement cost** | **$ 38,284** | **$ 192,318** | **$ 8,791** | **$ 239,393** |
| **Impact of master netting agreements** | **(4,466)** | **(38,392)** | — | **(42,858)** |
| **Replacement cost (after master netting agreements)** | **$ 33,818** | **$ 153,926** | **$ 8,791** | **$ 196,535** |
| Replacement cost (after master netting agreements) – 1999 | $ 71,742 | $ 38,800 | $ 30,209 | $ 140,751 |
| **Number of counterparties** | | | | |
| **March 31, 2000** | **2** | **11** | **2** | |
| March 31, 1999 | 2 | 9 | 3 | |

## 15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

| | Term to maturity or repricing | | | | | | | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Within 1 year | % | 1 to 3 years | % | 3 to 5 years | % | Over 5 years | % | **Notional amount** | **Replacement cost** | Notional amount | Replacement cost |
| **Interest rate contracts** | | | | | | | | | | | | |
| $CDN payable – fixed | $ 269,245 | 5.16 | $163,500 | 5.41 | $ 10,000 | 5.45 | $ | | **$ 442,745** | **$ 2,107** | $ 456,099 | $ 248 |
| $CDN receivable – fixed | 164,696 | 5.46 | 135,000 | 4.84 | 26,000 | 6.16 | 289,950 | 5.97 | **615,646** | **1,617** | 592,094 | 38,544 |
| $US receivable – fixed | 4,873 | 6.88 | — | | — | | — | | **4,873** | **22** | 11,374 | 353 |
| Basis swaps | — | | 105,000 | n.a. | — | | — | | **105,000** | **2,044** | 105,000 | 265 |
| Equity-linked swap contracts | 17,517 | n.a. | 45,859 | n.a. | 72,500 | n.a. | 237,698 | n.a. | **373,574** | **131,350** | 411,554 | 38,296 |
| Other contracts | 44,500 | n.a. | — | | 14,500 | n.a. | 22,195 | n.a. | **81,195** | **1,106** | 57,486 | 2,987 |
| | 500,831 | | 449,359 | | 123,000 | | 549,843 | | **1,623,033** | **138,246** | 1,633,607 | 80,693 |
| Forward rate agreements | — | | — | | — | | — | | — | — | 787,000 | 225 |
| Cross-currency interest rate swap contracts | 69,497 | n.a. | 247,464 | n.a. | 50,680 | n.a. | 832,408 | n.a. | **1,200,049** | **100,162** | 409,022 | 74,627 |
| Total interest rate contracts | 570,328 | | 696,823 | | 173,680 | | 1,382,251 | | **2,823,082** | **238,408** | 2,829,629 | 155,545 |
| **Foreign exchange contracts** | | | | | | | | | | | | |
| Currency forward contracts | 614,536 | n.a. | — | | — | | — | | **614,536** | **985** | 1,508,336 | 2,849 |
| Total foreign exchange contracts | 614,536 | | | | | | | | **614,536** | **985** | 1,508,336 | 2,849 |
| **Option contracts** | 3,415 | n.a. | — | | — | | — | | **3,415** | **—** | — | — |
| **Total** | $1,188,279 | | $696,823 | | $173,680 | | $1,382,251 | | **$3,441,033** | **$239,393** | $4,337,965 | $158,394 |
| Less impact of master netting agreements | — | | — | | — | | — | | — | **42,858** | — | 17,643 |
| **Total** | $1,188,279 | | $696,823 | | $173,680 | | $1,382,251 | | **$3,441,033** | **$196,535** | $4,337,965 | $140,751 |

*n.a. – not applicable or weighted rates are not significant.*

The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in U.S. dollars are converted into Canadian dollar equivalent.

## 16. CONTINGENT LIABILITIES AND COMMITMENTS

As at March 31, 2000:

a) various legal proceedings arising from the normal course of business are pending against the Bank. Management considers that the aggregate liability resulting from these proceedings will not be material.

b) the undisbursed amounts on loans authorized total $535,329. These loan commitments are for an average period of three months ($64,040 in fixed, $471,289 in floating). The effective interest rates on these loan commitments vary from 6.5% to 17.0%. The undisbursed amounts on venture capital investments authorized total $30,720.

**16. CONTINGENT LIABILITIES AND COMMITMENTS (continued)**

c) the future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

| | |
|---|---|
| 2001 | **$ 14,900** |
| 2002 | **14,100** |
| 2003 | **13,500** |
| 2004 | **13,200** |
| 2005 | **13,100** |
| 2006 – 2021 | **122,600** |
| | **$ 191,400** |

**17. PENSION PLANS AND OTHER BENEFITS**

The Bank maintains defined benefit pension plans for eligible employees. The following are the details of the plans based on the latest actuaria valuations prepared as at December 31:

| **Status of Pension Plans** | **1999** | | 1998 | |
|---|---|---|---|---|
| | **Registered** | **Supplemental** | Registered | Supplemental |
| Plan assets at market-related value | **$ 412,352** | **$ 4,084** | $ 377,536 | $ 3,944 |
| Projected benefit obligation | **300,091** | **19,910** | 285,085 | 22,591 |
| Funding excess (deficit) | **$ 112,261** | **$ (15,826)** | $ 92,451 | $ (18,647) |
| Pension expense (credit) | **$ (12,513)** | **$ 3,926** | $ (6,775) | $ 2,314 |

The pension expense (credit) is included in Salaries and Benefits. The cumulative difference between the amounts expensed and the funding contributions is recorded in the Balance Sheet under "Other Liabilities".

Employees of the Bank are currently not required to contribute to the pension plans. The Bank has the ultimate responsibility for ensuring that pension obligations are adequately funded over time.

Included in Salaries and Benefits is an amount of $6,891 ($5,821 in 1999) for other future employee benefits. Accrued benefit obligations in the amount of $62,511 ($58,142 in 1999) for other future employee benefits are included in the Balance Sheet under "Other Liabilities".

**18. CULTURAL INDUSTRIES DEVELOPMENT FUND**

During the year, the Department of Canadian Heritage (DOCH) transferred the Cultural Industries Development Fund (CIDF) to the Bank at carrying value. In prior years the Bank administered CIDF on behalf of DOCH. Net assets transferred in the amount of $27,778 have been recorded as contributed surplus in the Balance Sheet and include cash of $17,634 and loans of $10,144.

**19. RELATED PARTY TRANSACTIONS**

The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Bank entered into transactions with these entities in the normal course of business.

**20. SEGMENTED RESULTS OF OPERATIONS**

The operations of the Bank are grouped into the business segments of Loans, Venture Capital and the Consulting Group. Disclosure of each segment's revenues, expenses and net income is set out in the Statement of Income consistent with the practice in previous years.

**21. COMPARATIVE FINANCIAL DATA**

Certain comparative figures have been reclassified to conform with the presentation adopted in 2000.

# FIVE-YEAR OPERATIONAL AND FINANCIAL SUMMARY

| **OPERATIONAL STATISTICS**<br>for the year ended March 31 ($ in thousands) | **2000** | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| **FINANCIAL SERVICES** | | | | | |
| Total financing committed as at March 31 | | | | | |
| Amount | **$5,641,379** | $5,090,228 | $4,586,083 | $4,038,176 | $3,622,678 |
| Number of customers | **18,807** | 17,923 | 17,414 | 16,383 | 15,774 |
| Committed to lending customers as at March 31 | | | | | |
| Amount | **$5,446,309** | $4,933,237 | $4,461,411 | $3,964,865 | $3,572,215 |
| Number of customers | **18,708** | 17,833 | 17,335 | 16,317 | 15,727 |
| Committed to investment customers as at March 31 | | | | | |
| Amount | **$ 195,070** | $ 156,991 | $ 124,672 | $ 73,311 | $ 50,463 |
| Number of customers | **99** | 90 | 79 | 66 | 47 |
| Total financing authorized | | | | | |
| Number | **6,412** | 6,082 | 5,815 | 5,727 | 5,351 |
| Net amount | **$1,435,288** | $1,271,937 | $1,234,968 | $1,027,104 | $ 896,301 |
| Lending authorized | | | | | |
| Number | **6,350** | 6,035 | 5,773 | 5,696 | 5,329 |
| Net amount | **$1,372,492** | $1,230,130 | $1,171,977 | $ 997,565 | $ 881,697 |
| Investments authorized | | | | | |
| Number | **62** | 47 | 42 | 31 | 22 |
| Net amount | **$ 62,796** | $ 41,807 | $ 62,991 | $ 29,539 | $ 14,604 |
| **FINANCIAL STATISTICS** | | | | | |
| Net interest income | | | | | |
| as a percentage of average loan portfolio | **5.6%** | 5.6% | 5.6% | 5.5% | 5.0% |
| Provision for credit losses | | | | | |
| as a percentage of average loan portfolio | **2.0%** | 1.4% | 1.3% | 1.1% | 0.7% |
| Operating and administrative expenses | | | | | |
| as a percentage of average loan portfolio | **3.0%** | 3.2% | 3.0% | 3.0% | 3.6% |
| **CONSULTING GROUP** | | | | | |
| Revenue from activities | **$ 19,396** | $ 17,823 | $ 21,458 | $ 19,758 | $ 19,125 |
| Cost recovery rate (restated to include transformation costs; prior to 1998 excludes long-term accruals) | **82%** | 77% | 69% | 59% | 58% |

## FINANCIAL INFORMATION

| ($ in thousands) | **2000** | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| **STATEMENT OF INCOME** for the year ended March 31 | | | | | |
| Net income (excluding parliamentary appropriation) | **$ 101,105** | $ 32,784 | $ 45,474 | $ 43,720 | $ 17,475 |
| Parliamentary appropriation | **$ —** | $ — | $ — | $ 6,948 | $ 14,078 |
| **Net Income** | **$ 101,105** | $ 32,784 | $ 45,474 | $ 50,668 | $ 31,553 |
| Net Income (loss) | | | | | |
| Loans | **$ 25,320** | $ 42,124 | $ 50,737 | $ 48,424 | $ 21,332 |
| Venture Capital | **$ 80,039** | $ (4,124) | $ 4,217 | $ 9,948 | $ 10,245 |
| Consulting Group | **$ (4,254)** | $ (5,216) | $ (9,480) | $ (14,652) | $ (14,102) |
| **Net Income** (excluding parliamentary appropriation) | **$ 101,105** | $ 32,784 | $ 45,474 | $ 43,720 | $ 17,475 |
| **BALANCE SHEET** as at March 31 | | | | | |
| Loans, net of allowance for credit losses | **$4,608,188** | $4,248,745 | $3,838,305 | $3,386,356 | $3,111,361 |
| Venture capital investments, net of accumulated write-down of investments | **$ 145,107** | $ 110,298 | $ 70,046 | $ 41,444 | $ 31,836 |
| Total assets | **$5,644,159** | $5,098,461 | $4,587,989 | $4,029,805 | $3,572,714 |
| Total shareholder's equity* | **$ 783,826** | $ 583,832 | $ 507,058 | $ 467,594 | $ 370,328 |
| Total liabilities | **$4,860,333** | $4,514,629 | $4,080,931 | $3,562,211 | $3,202,386 |
| Average loan portfolio | **$4,736,601** | $4,281,607 | $3,855,662 | $3,467,174 | $3,173,746 |

* As at March 31, 2000, total shareholder's equity includes a $27,778 contributed surplus.

# BDC SERVICES IN BRIEF

BDC is structured to offer a variety of flexible and specialized financial products, as well as consulting services to help Canadian small businesses grow and successfully compete in an ever-changing global environment. The Bank's philosophy is to respond to the needs of entrepreneurs with timely and relevant business solutions.

**> BDC FINANCIAL SERVICES**

The Bank provides a wide range of term loans with flexible repayment conditions. BDC supports companies at every stage of their growth in almost every sector of the economy. For instance, the Bank is very active in the manufacturing and tourism sectors, and maintains a particular focus on knowledge-based and exporting industries. The Bank also responds to the particular needs of growing target markets, such as women, Aboriginal and young entrepreneurs.

Quasi-equity financing of up to $250,000 is offered to growing businesses with promising market niches. This form of higher-risk financing is a hybrid instrument that has the features of both debt and equity.

**> BDC INVESTMENT GROUP**

BDC Investment Group offers venture capital and subordinate financing to meet the special needs of growth-oriented businesses. The Bank provides venture capital especially to early stage high technology companies that have a clear vision of their market, excellent growth potential and are export-oriented. BDC Investment Group also offers fast-growing and more mature small businesses subordinate financing above $250,000, which is a unique type of quasi-equity loan.

**> BDC CONSULTING GROUP**

Through its national network of private sector consultants BDC Consulting Group offers small business entrepreneur affordable, customized and effective solutions to enhanc their management skills. It also helps entrepreneurs assess plan and implement winning strategies, especially in the area of growth, quality, export and e-commerce. BDC Consulting Group provides solutions that enable growth-minde businesses to take their place in the world economy.

**> BDC CONNEX®**

With the creation of BDC Connex in 1998, the Bank becam the first financial institution in Canada to offers its client the entire range of its financial products on-line, such a the Tourism Investment Fund, the Global Line of Credit® an the Student Business Loans Program. BDC Connex is th Bank's virtual branch that is readily accessible to small businesses wishing to be informed on BDC products and services as well as to do business on-line.

**BDC: IN BUSINESS FOR SMALL BUSINESS**

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